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

(Mark one)

_X_ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2003

OR

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

Commission File Number 000-26372

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

California	82-0429727
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

349 Oyster Point Boulevard, Suite 200, South San Francisco, California 94080
(Address of Principal Executive Offices) (zip code)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES _X_ NO ___

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

YES _X_ NO ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Act of 1934).

YES ___ NO _X_

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2003, the last business day of the Registrant's most recently completed second fiscal quarter, was $51,755,662, based on the closing price for the common stock on The Nasdaq Stock Market on such date. This calculation does not include a determination that persons are affiliates or non-affiliates for any other purpose.

As of March 29, 2004, there were 20,117,211 of shares of common stock outstanding.

Documents Incorporated By Reference:

The information called for by Part III of this Report, and certain information called for by Part II, Item 5 of this Report, to the extent not set forth herein, is incorporated by reference to the definitive Proxy Statement relating to the Annual Meeting of Shareholders of the Company which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year to which this Report relates.

CELLEGY PHARMACEUTICALS, INC. 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

TABLE OF CONTENTS

Unless the context otherwise requires, the terms "we", "our", and "Cellegy" refer to Cellegy Pharmaceuticals, Inc., a California corporation, and its subsidiaries. Cellegesic, Fortigel, Tostrelle, and Rectogesic are our trademarks. We also refer to trademarks of other corporations and organizations in this document.

PART I

ITEM 1: BUSINESS

Cellegy Pharmaceuticals is a development stage specialty biopharmaceutical company, incorporated in California in 1989, that develops and intends to commercialize prescription drugs targeting primarily gastrointestinal conditions and sexual dysfunction using proprietary topical formulations and nitric oxide ("NO") donor technologies. In January 2004, Cellegy reported positive results from a confirmatory Phase 3 study using Cellegesic(TM) (nitroglycerin ointment) for the treatment of chronic anal fissure pain. We plan to submit a New Drug Application ("NDA") to the United States Food and Drug Administration ("FDA") in the second quarter of 2004.

In addition to the anal fissure indication, we are developing Cellegesic for the treatment of hemorrhoids and a painful condition called dyspareunia, which prevents or inhibits sexual intercourse in more than five million women in the United States. Other early stage NO donor product candidates in our pipeline address a number of conditions including prostate cancer, Raynaud's Disease and Restless Leg Syndrome.

Cellegy is also developing two transdermal testosterone gel products. Tostrelle(TM) (testosterone gel) 0.5% is for the treatment of female sexual dysfunction in postmenopausal women. We have previously announced results of an interim analysis of a Phase 2 study using Tostrelle for the treatment of female sexual dysfunction showing a favorable response rate of 71% versus a placebo response of 13%. Fortigel(TM) (testosterone gel) 2.0%, a replacement therapy for male hypogonadism, was the subject of a Not Approvable letter by the FDA in July 2003. Cellegy has had discussions and exchanges with the FDA which we believe may lead to agreement on any remaining work required for approval of the product. There can, however, be no assurances regarding the timing and outcome of these interactions and the FDA's decisions regarding Fortigel or our other products.

Products Under Development

Cellegesic (nitroglycerin ointment for treatment of anal fissures, hemorrhoids and dyspareunia)

Cellegesic is a topical, nitroglycerin-based prescription product being developed for the treatment of anal fissures, hemorrhoids and dyspareunia. Nitroglycerin is a drug that has safely and effectively been used for many years to treat cardiac conditions, primarily angina pectoris.

Anal fissures are painful tears in the lining of the anal canal, a condition afflicting men and women of all age groups and nationalities. The condition is associated with increased pressure in the anal canal and a decrease in blood supply to the region. Many chronic cases require a painful and expensive surgical procedure (Lateral Internal Sphincterotomy), that is designed to reduce anal pressure by severing the muscles of the inner anal sphincter. This procedure, while highly effective, frequently leaves patients incontinent. Cellegesic, which is applied intra-anally, works to reduce anal pressure by gently relaxing the inner anal sphincter muscles. If approved, Cellegesic, will likely reduce the number of surgeries and the associated incontinence risk.

There are currently no FDA approved drug therapies for anal fissures, although anesthetics and anti-inflammatory agents which only partially relieve the symptoms of the condition are currently prescribed. According to Verispan audits, anal fissures afflict an estimated 750,000 Americans, resulting in over one million physician visits each year. The most recent audit data for 2003 show about 100,000 annual uses of pharmacy-compounded nitroglycerin for the treatment of anal fissures. We believe that, if Cellegesic is approved, the extensive compounding of nitroglycerin by pharmacies will decline as physicians begin to prescribe Cellegesic, a stable, homogeneous formulation that will be to FDA standards and will be consistent from batch to batch. We plan to enforce our issued United States patents if compounding continues after FDA approval of Cellegesic.

Hemorrhoids are dilated, swollen veins and tissue located either in or near the anal canal. In the United States alone, there are approximately nine million people who suffer from hemorrhoids each year, according to published data. Hemorrhoids are also characterized by an increase in intra-anal pressure, which has been shown to be effectively reduced by the application of Cellegesic. Cellegy is currently conducting a Phase 2 clinical trial to test the efficacy of Cellegesic ointment in the treatment of various symptoms of hemorrhoids.

Dyspareunia is a condition that is characterized by intense vaginal pain. The condition can be recurrent and frequently causes significant impairment to normal sexual functioning in woman. There are multiple possible causes of dyspareunia but often the condition is present without any obvious evidence of underlying disease. It has been reported that between 7% to 15% of American women of sexually active age are affected by the condition. There are no approved treatments for dyspareunia and while many different approaches are used none are completely satisfactory. In a recent, non placebo controlled clinical study of nitroglycerin ointment conducted by Dr. Jennifer Berman of the University of California Los Angeles Medical Center, the product was reported to reduce the pain of women suffering from vulvodynia, a condition that is a major contributor to dyspareunia. Cellegy is now initiating a similar study and intends to conduct additional trials using Cellegesic for the treatment of vulvodynia.

Recent Cellegesic Clinical Trials Results

In January 2004, Cellegy announced results of a preliminary analysis of its third Cellegesic Phase 3 clinical trial showing a statistically significant ($p<0.05$) reduction in anal fissure pain compared with a placebo control during the first three weeks of the trial, the primary efficacy endpoint of the study. As observed in two earlier Phase 3 trials, the most common side effect was mild to moderate headache. The double blind, placebo controlled trial was conducted according to a Special Protocol Assessment ("SPA"), that was agreed to by the Company and the FDA. An SPA is intended to provide assurance that if the pre-specified primary endpoint is achieved and no unexpected safety issues are seen, the FDA will approve the product for commercial sale. We are now preparing an NDA submission for filing with the FDA in the second quarter of 2004.

Subjects who met the enrollment criteria for a chronic anal fissure were randomized to receive either the placebo ointment or 0.4% nitroglycerin ointment twice daily over an eight-week period. The daily records of average pain intensity from 187 intent-to-treat subjects (89 Cellegesic-treated and 98 placebo-treated) were analyzed for statistical evidence of pain reduction during the first 21 days of treatment as the primary efficacy endpoint. The primary endpoint was achieved ($p<0.05$).

A secondary endpoint and several tertiary endpoints were also analyzed. The secondary endpoint was time to 50% pain reduction. On average, the time to 50% pain reduction produced by Cellegesic was sooner than the reduction produced by the placebo, although the difference was not statistically significant. Tertiary endpoints included reduction of average pain over the eight-week (56 days) treatment period, reduction of pain upon defecation through days 21 and 56, and healing. Average pain reduction and defecation pain reduction were both statistically significant over 56 days ($p<0.05$). However, the significance achieved in these tertiary endpoints did not remain statistically significant after applying adjustment to the p-values for the analysis of multiple endpoints. These results were numerically superior to placebo and demonstrate an important positive trend. There was no significant difference in fissure healing between Cellegesic and the placebo control, as in earlier trials.

Side effects seen in the trial were consistent with those observed in the previous two Phase 3 studies, with mild to moderate headache the most common side effect. Five subjects dropped out of the study as a result of the headache. The SPA, as agreed to with the FDA, required that subjects discontinuing due to nitroglycerin related headache (one that occurs within 30 minutes of application) should have their last daily pain intensity score, as recorded on the day the subject dropped out, carried forward each day through day 21. Clinical judgment, based on each subject's entire record, was used to determine which of the five subjects discontinued due to nitroglycerin related headaches. Last daily pain intensity scores were carried forward for three of the five subjects. The other two subjects who withdrew from the trial due to headache had all of their available pain data prior to dropout included in the analysis. We believe we achieved the results specified in the SPA although the FDA will conduct its own analysis, and could disagree with our conclusion.

Cellegy is also conducting a Phase 2 clinical trial using Cellegesic to determine its effect on the symptoms of hemorrhoids. Hemorrhoids afflict an estimated nine million people annually in the United States alone, according to published data. We are also initiating a pilot study in dyspareunia, a painful condition afflicting up to five million women in the United States.

Previous Cellegesic Clinical Trial Results

We completed our initial Phase 3 clinical trial using Cellegesic for the treatment of anal fissures and announced the results in November 1999. The trial, which included 304 patients, did not demonstrate a statistically significant rate of healing compared with placebo, but did show significant pain reduction. Based on this outcome, we initiated a second Phase 3 trial in 2000 to confirm the drug's ability to reduce fissure pain, the primary trial endpoint, with healing of chronic anal fissures as a secondary endpoint. The second Phase 3 clinical trial, which included 229 patients in several study centers in the United States and overseas, was completed in September 2001. Patients received either of two strengths of Cellegesic or placebo administered twice daily over an eight week treatment period. The patient's pain scores were tabulated and the patients were examined to determine whether the fissure had healed. Positive results were achieved in the primary endpoint, which was pain reduction of chronic anal fissures. Statistical significance was not achieved in healing.

In June 2001, we filed a rolling NDA with the FDA for the use of Cellegesic for the treatment of pain associated with chronic anal fissures. We amended the NDA upon completion of the second Phase 3 anal fissure pain study in November 2001. In April 2002, we announced the withdrawal of our Cellegesic NDA after it became clear that the FDA was not going to approve the NDA. We had several subsequent discussions and meetings with the FDA to supply additional information and to attempt to clarify and respond to the FDA's concerns and questions. In September 2002, we announced that we believed most of the agency's previously stated concerns had been satisfactorily addressed with the exception that the FDA believed that some aspects of the statistical analysis methodology used by Cellegy were not pre-specified in the statistical analysis plan submitted prior to unblinding the trial. Cellegy believes that it had adequately demonstrated that the statistical analysis methodology was properly set forth in the original analysis plan and was correctly utilized. However, the FDA concluded that the method was not pre-specified to its satisfaction and indicated that it would require another Phase 3 trial before considering approval of the product.

Tostrelle (testosterone gel for female hormone replacement therapy)

Normal blood concentrations of testosterone in women range from 10 to 20 times less than those of men. Nevertheless, in both sexes, testosterone plays a key role in building muscle tissue or bone and in maintaining normal sexual desire. In women, the ovaries and adrenal glands continue to synthesize testosterone after menopause, although the rate of production may diminish by as much as 50%. Testosterone deficiency in women frequently leads to diminished libido, decreased bone and muscle mass and reduced energy levels. Approximately 15 million women in the United States suffer from symptoms of testosterone deficiency. At the present time, there are no approved products for the treatment of this condition, although it has been reported that testosterone treatment is frequently being prescribed off-label for women by Obstetricians and Gynecologists.

Based on the results of pharmacokinetic studies in men receiving Fortigel, Cellegy's product candidate for male hypogonadism, our scientists calculated the concentration of testosterone required to achieve normal pre-menopausal hormone levels in postmenopausal women. The result is Cellegy's Tostrelle, a product designed to safely restore normal testosterone levels in hormone deficient women.

Cellegy has successfully completed two Phase 1/2 pharmacokinetic studies in which we determined the proper dose necessary to restore normal testosterone levels to normally menopausal and surgically-induced menopausal women. In June 2003, we announced an interim analysis of a Phase 2 study in women with sexual dysfunction showing a favorable response rate of 71% with Tostrelle versus a 13% placebo response. Based on these results, we initiated an amended Phase 2 clinical study in 2003. We now plan to meet with the FDA to review the trial results and the overall Tostrelle program. Subject to the outcome of this meeting, we intend to pursue advanced trials incorporating any reasonable protocol changes that might be required by the FDA.

Fortigel (testosterone replacement therapy for male hypogonadism)

Fortigel is a transdermal testosterone gel designed to treat male hypogonadism, a condition involving clinically deficient levels of the sex hormone testosterone. Low levels of testosterone can result in lethargy, depression and a decline in libido. In severely deficient cases, loss of muscle mass and bone density can occur. Approximately five million men in the United States, primarily in the aging (over 40) male population group, have deficient levels of testosterone.

There are a number of companies currently marketing testosterone in several different product forms in domestic and international markets. Cellegy believes there is an important medical and market need for an improved product, as the side effects and patient inconveniences associated with many of the currently marketed products have limited their use to less than 10% of potential patients, according to published prescription data. Current product forms include injectables, a transdermal patch, two testosterone gel products and a buccal tablet. The leading gel product currently priced at approximately $3,500 per year is now generating annual domestic revenues in excess of $350 million.

Cellegy's proprietary testosterone gel product candidate is transparent, rapid-drying and non-staining. It is designed as a once-a-day application from a unique metered dose dispenser to relatively small areas of the skin. Based on the results of a 201-patient Phase 3 trial announced in November 2001, Cellegy filed an NDA in June of 2002. However, Fortigel was subsequently the subject of a Not Approvable letter by the FDA in July 2003. In its letter, the FDA stated that in its opinion the following deficiencies in the Fortigel NDA were found: (1) there is insufficient information to establish that high supraphysiologic daily Cmax serum testosterone levels achieved in a significant portion of participants in the major clinical study supporting the NDA are safe under conditions of chronic administration; and, (2) there is insufficient information provided to demonstrate that the dose of the product can be adjusted to consistently preclude achieving these high supraphysiological testosterone levels. Cellegy has had discussion and exchanges with the FDA which Cellegy believes may lead to agreement on any remaining work required for approval of the product, although there can be no assurances regarding the timing and outcome of these interactions and the FDA's decision. We could be required to conduct further clinical trials or undertake other time consuming or costly actions necessary to satisfy the FDA's requirements.

Marketed Products

Rectogesic

Rectogesic(TM) (nitroglycerin ointment), a product similar in formulation to Cellegesic, was approved by the Australian Therapeutic Goods Administration and has been successfully marketed in Australia since early 1999 and is now on the market in New Zealand and South Korea. Rectogesic is the only approved product for the treatment of anal fissures and, although it is not indicated for hemorrhoids treatment, it has achieved the number 3 market position in the much larger hemorrhoid product category in Australia, with sales increasing by 27% in 2002 and another 40% in 2003. There have been no safety issues reported with use of the product since its introduction.

Skin Care

Cellegy has completed development of certain consumer skin care blends, including skin moisturizers and anti-aging lotions and creams. We are currently marketing our C79 Intensive Moisturizer formulation to a major specialty retailer which incorporates C79 into its products. Our revenues from sales of C79 totaled $316,000 in 2003 with total sales of approximately $5 million since product introduction in 1998.

Marketing and Commercialization Strategy

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

- Self-Marketing to Specialty Physicians in United States. Whenever practical, we plan to self market our products to a targeted audience of key physician specialists, including Gastroenterologists and Obstetrician-Gynecologists, through the establishment of our own sales force. We plan to seek pharmaceutical partners to assist in the promotion of products prescribed by larger physician groups. Cellegy intends to commercialize Cellegesic, if approved, initially on our own and subsequently through co-promotion agreements with partners in the United States as the use of Cellegesic expands

beyond the specialists. In most cases, we plan to outlicense the overseas rights for products we develop.

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

- Manufacturing. Cellegy has manufacturing arrangements with PendoPharm Inc., ("PendoPharm") an FDA approved contract manufacturing company based in Canada. PendoPharm, previously called PanGeo and now an affiliate of Pharmasciences, has successfully manufactured Cellegesic, Fortigel and Tostrelle for our clinical trials and will be a commercial manufacturer for these products, when approved. We are actively working to validate a domestic contract manufacturer to serve as a second manufacturing source for our product candidates.

- Distribution. Cellegy has entered into distribution agreements for Rectogesic in New Zealand and South Korea. We intend to contract with additional distributors in Asia and other major overseas markets.

Research Programs

Cellegy's research and development programs focus on nitric oxide pharmacology and related treatments for anorectal and gastrointestinal diseases, sexual dysfunction, peripheral vascular disorders and cancer. The November 2001 acquisition of Vaxis, now Cellegy Canada, significantly broadened our intellectual property and product candidate portfolio for the treatment of female sexual dysfunction, male erectile dysfunction and has also expanded our research into potential oncology treatments. Cellegy has rights to future discoveries, technologies and products developed by Cellegy Canada. Most of the current research programs are being conducted at Queen's University in Kingston, Ontario or in our leased laboratories located at the University.

The expanded expertise in nitric oxide pharmacology has led to an understanding of the role of nitric oxide as a signaling molecule, operating at lower concentrations than is normally required for vasodilators, especially in tissue under an abnormally vaso-spasmatic or vaso-constrictive state. This discovery presents various potential approaches to treat conditions caused by vaso-constriction, such as peripheral vascular insufficiency found in Raynaud's disease, male erectile dysfunction and selected aspects of female sexual dysfunction. We plan to verify and validate selected potential therapeutic indications either in vivo animal testing or in pilot human studies.

We have also been investigating the role of nitric oxide in the development of chemo-resistance and in attenuating cancer metastasis induced by hypoxia (low oxygen), a condition that commonly exists in various difficult to treat cancers. Results published in various peer-reviewed journals show that the administration of nitric oxide donors, like nitroglycerin, prevented the development of chemo-resistance to several well-established chemotherapeutic agents such as 5-flurouracil and doxorubicin, and the metastasis of prostate, breast and other human cancer cell lines and in spheroid cultures. In addition to these mechanistic studies, Cellegy's collaborators at Queens University have also established an in vivo tumor model to test the effect of a nitric oxide donor in preventing the metastasis of existing tumors. A pilot human study using topical nitroglycerin to attenuate the progressive increase of PSA (prostate-specific antigen, a marker of biological failure in patients after a prostectomy procedure) was presented at the American Urological Association annual meeting in the second quarter of 2003.

Early observations by Cellegy Canada scientists showed that the co-administration of nitric oxide releasing agents blocks nociceptive pain response triggered by PGE1 injection. This concept is further supported by the July 2002 publication of a pilot study in Journal of Gender Specific Medicine reporting the efficacy of treating vulvar pain and pain with sexual activity in women with vulvodynia using 0.2% topical nitroglycerin ointment. Cellegy is

now initiating a clinical study using topical nitroglycerin in treating vulvar pain associated with vulvodynia and dyspareunia, which we intend to complete in 2004.

Patents and Trade Secrets

Cellegy has 22 issued United States patents, more than 60 issued foreign patents, and over 80 pending patent applications worldwide. Two issued United States patents and 15 pending patent applications relate to our testosterone gel products for males and females. Two issued United States patents, over 20 issued foreign patents, and more than 10 pending patent applications relate to Cellegy's Cellegesic product for the treatment of anal fissures and other anal diseases. While our European patent covering the Cellegesic product was challenged and subsequently revoked during the opposition proceedings in December 2003, Cellegy plans to file an appeal to the decision in the next several months. Two issued United States patents and over 25 pending patent applications relate to possible backup compounds for our Cellegesic product. As part of Cellegy's acquisition of Cellegy Canada, Cellegy gained rights to 5 issued United States patents, 3 issued foreign patents, and more than 40 pending patent applications. These patents and applications disclose methods of treatment of peripheral vascular conditions including male erectile dysfunction, female sexual dysfunction, and Raynaud's disease, as well as other conditions. United States and foreign patent applications disclosing novel store-operated calcium influx (SOC) inhibitors and their use in the treatment of various disorders are pending or have recently published. Additional patent applications are being prepared for filing that will cover methods or products currently under development. Corresponding patent applications for most of Cellegy's issued United States patents have been filed in countries of importance to us located in major world markets, including certain countries in Europe, Australia, South Korea, Japan, Mexico and Canada.

Our policy is to protect our technology by, among other things, filing patent applications for technology that we consider important to the development of our business. We intend to file additional patent applications, when appropriate, relating to our technology, improvements to our technology and to specific products that we develop. It is impossible to anticipate the breadth or degree of protection that any such patents will afford, or whether we can meaningfully protect our rights to our unpatented trade secrets. Cellegy also relies upon unpatented trade secrets and know-how, and no assurance can be given that competitors will not independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets or disclose such technology. It is our policy to require our employees to execute an invention assignment and confidentiality agreement upon employment. Our consultants are required to execute a confidentiality agreement upon the commencement of their consultancy. Each agreement provides that all confidential information developed or made known to the employee or consultant during the course of employment or consultancy will be kept confidential and not disclosed to third parties except in specific circumstances. The invention assignment generally provides that all inventions conceived by the employee shall be the exclusive property of Cellegy. In addition, it is our policy to require collaborators and potential collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection of our trade secrets. For additional risks and uncertainties relating to our patents and intellectual property, particularly the European opposition to our Cellegesic patents, see the discussion of our patents and intellectual property under the heading, "Management's Discussion and Analysis of Financial Condition and Results of Operation - Factors That May Affect Future Operating Results."

Product and Company Acquisitions

In November 2001, Cellegy acquired Vaxis Therapeutics Corporation, a private Canadian company for $4.1 million primarily in Cellegy common stock. Vaxis, subsequently renamed Cellegy Canada, is a wholly-owned research and development subsidiary with prominent scientists focusing in the areas of sexual dysfunction, peripheral vascular disorders, cancer and nitric oxide pharmacology. This research supports our goals of expanding our product pipeline and protecting our patents.

In June 2000, Cellegy acquired Quay Pharmaceuticals, an Australian company marketing Rectogesic, a nitroglycerin ointment product similar to Cellegesic. The acquisition cost totaled $1,835,000, consisting primarily of Cellegy common stock and warrants. Cellegy continues to self-market Rectogesic in Australia through its wholly-owned Cellegy Australia subsidiary and currently sells Rectogesic through distributors in New Zealand and South

Korea. We plan to selectively sell Rectogesic through distributors in other Pacific Rim countries and potentially in other major markets around the world.

In December 1997, Cellegy acquired patent and related intellectual property rights relating to Cellegesic from Neptune Pharmaceuticals. Under the purchase agreement, we issued 462,809 shares of common stock to Neptune in 1997 with a value of $3,750,000. The agreement calls for a series of additional payments, payable in shares of common stock, upon successful completion of various milestones tied to clinical trial results and commercialization of Cellegesic in domestic and foreign markets. Cellegy has no future product royalty obligations to Neptune in connection with potential Cellegesic product revenues.

Government Regulation

FDA Requirements for Human Drugs. The research, development, testing, manufacturing, storage, labeling, record keeping, distribution, advertising, promotion and marketing of drug products are extensively regulated by numerous governmental authorities in the United States and other countries. In the United States, drugs are subject to rigorous FDA regulation pursuant to, among other laws, the Food, Drug and Cosmetic Act or FD&C Act.

The steps ordinarily required before a new pharmaceutical product may be marketed in the United States include: (i) preclinical tests, (ii) the submission to the FDA of an Investigational New Drug Application, or IND, which must be approved before human clinical trials commence; (iii) adequate and well-controlled clinical trials to establish the safety and efficacy of the product for its proposed indication; (iv) the submission of a New Drug Application, or NDA, for a new drug or a Product License Application for a new biologic to the FDA; and (v) FDA review and approval of the NDA or Product License Application before any commercial sale or shipment of the product. Preclinical tests include laboratory evaluation of product formulation and animal studies (if an appropriate animal model is available) to assess the potential safety and efficacy of the product. Formulations must be manufactured according to the FDA's current Good Manufacturing Practice, or GMP, requirements, and preclinical safety tests must be conducted by laboratories that comply with FDA's Good Laboratory Practice regulations.

The results of preclinical testing are submitted to the FDA as part of an IND and are reviewed by the FDA before commencement of human clinical trials. Clinical trials may begin 30 days after the IND is received, unless the FDA raises concerns or questions about the conduct of the clinical trials. If concerns or questions are raised, the IND sponsor and the FDA must resolve any outstanding concerns before clinical trials can proceed. There can be no assurance that submission of an IND will result in FDA authorization to commence clinical trials. In some instances, the IND application process can result in substantial delay and expense. Clinical trials to support NDAs are typically conducted in three sequential phases, which may overlap and which usually require several years to complete. A clinical trial may combine the elements of more than one phase, and often two or more Phase 3 studies are required. The FDA, upon request through a Special Protocol Assessment, can also provide specific written guidance on the acceptability of protocol designs for selected clinical trials.

After successful completion of the required clinical testing, generally an NDA is submitted. FDA approval of the NDA (as described below) is required before marketing may begin in the United States. The FDA reviews all NDAs submitted and may request more information before it accepts the filing. The review process is often extended significantly by FDA requests for additional information or clarification. The FDA may refer the application to the appropriate advisory committee, typically a panel of clinicians, for review, evaluation and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee. During the review process, the FDA generally will conduct an inspection of the relevant drug manufacturing facilities and clinical sites to ensure that the facilities are in compliance with applicable Good Manufacturing Practices requirements. If FDA evaluations of the NDA application, manufacturing facilities, and clinical sites are favorable, the FDA may issue either an approvable letter or a not approvable letter, which contains a number of conditions that must be met in order to secure approval of the NDA. When and if those conditions have been met to the FDA's satisfaction, the FDA will issue an approvable letter, authorizing commercial marketing of the drug for certain specific indications. If the FDA's evaluation of the NDA submission or manufacturing facilities is not favorable, the FDA may refuse to approve the NDA or issue a not approvable letter, outlining the deficiencies in the submission and often requiring additional testing or information. Notwithstanding the submission of any requested additional data or information in response to an approvable or not approvable letter, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval. Even if FDA approval is

obtained, a marketed drug product and its manufacturer are subject to continual review and inspection, and later discovery of previously unknown problems with the product or manufacturer may result in restrictions or sanctions on such product or manufacturer, including withdrawal of the product from the market.

The process of developing and obtaining approval for a new pharmaceutical product within this regulatory framework requires a number of years and the expenditure of substantial resources. There can be no assurance that necessary approvals will be obtained on a timely basis, if at all. Delays in obtaining regulatory approvals could have a material adverse effect on us. If we fail to comply with applicable regulatory requirements for marketing drugs, we could be subject to administrative or judicially imposed sanctions such as warning letters, fines, product recalls or seizures, injunctions against production, distribution, sales, or marketing, delays in obtaining marketing authorizations or the refusal of the government to grant such approvals, suspensions and withdrawals of previously granted approvals, civil penalties and criminal prosecution of Cellegy, our officers or our employees.

Manufacturing. Each domestic drug manufacturing facility must be registered with the FDA. Domestic drug manufacturing establishments are subject to routine inspection by the FDA and other regulatory authorities and must comply with GMP requirements and any applicable state or local regulatory requirements. Foreign manufacturing facilities are also subject to periodic FDA inspections or inspections by foreign regulatory authorities. Among other things, the FDA may withhold approvals of NDA's or other product applications if deficiencies are found at the facility. Vendors that supply us finished products or components used to manufacture, package and label products are subject to similar regulation and periodic inspection. We have used and intend to continue to use contract manufacturers that operate in conformance with these requirements to produce our compounds and finished products in commercial quantities. We cannot assure you that manufacturing or quality control problems will not arise at the manufacturing plants of our contract manufacturers or that such manufacturers will have the financial capabilities or management expertise to be able to adequately supply product or maintain compliance with the regulatory requirements necessary to continue manufacturing our products.

Foreign Regulation of Drugs. Whether or not FDA approval has been obtained, approval of a product by comparable regulatory authorities may be necessary in foreign countries before the commencement of marketing of the product in such countries. The approval procedures vary among countries, can involve additional testing, and the time required may differ from that required for FDA approval. Although there are some procedures for unified filings for certain European countries, in general each country has its own procedures and requirements, many of which are time consuming and expensive. Under European Union regulatory systems, a company may submit marketing authorization applications either under a centralized or decentralized procedure. The centralized procedure, which is available for medicines produced by biotechnology or which are highly innovative, provides for the grant of a single marketing authorization that is valid for European Union member states. This authorization is called a marketing authorization approval ("MAA"). The decentralized procedure provides for mutual recognition of national approval decisions. Under this procedure, the holder of a national marketing authorization may submit an application to the remaining member states. Within 90 days of receiving the application and assessment report, each member state must make their own determination regarding approval. This procedure is referred to as the mutual recognition procedure. There can be substantial delays in obtaining required approvals from both the FDA and foreign regulatory authorities after the relevant applications are filed. We expect to rely principally on corporate partners, licensees and contract research organizations, along with our expertise, to obtain governmental approval in foreign countries of drug formulations utilizing our compounds.

Other Government Regulation. In addition to regulations enforced by the FDA, Cellegy is also subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other similar federal and state laws regarding, among other things, occupational safety, the use and handling of radioisotopes, environmental protection and hazardous substance control. Although we believe that we have complied with these laws and regulations in all material respects and have not been required to take any action to correct any noncompliance, there can be no assurance that Cellegy will not be required to incur significant costs to comply with environmental and health and safety regulations in the future. Our research and development involves the controlled use of hazardous materials, chemicals, and various radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, Cellegy could be held liable for any damages that result and any such liability could exceed our resources.

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

Competition

The pharmaceutical industry is characterized by extensive research efforts and rapid and significant technological changes. In the development and marketing of topical prescription drugs, Cellegy faces intense competition. Cellegy is much smaller in terms of size and resources than many of its competitors in the United States and abroad, which include, among others, major pharmaceutical, chemical, consumer product, and biotechnology companies, specialized firms, universities and other research institutions. Cellegy's competitors may succeed in developing technologies and products that are safer, more effective or less costly than any which are being developed by us that would render our technology and potential products obsolete and noncompetitive. Many of these competitors have substantially greater financial and technical resources, clinical production and marketing capabilities and regulatory experience than we have. In addition, Cellegy's products, if commercialized, are subject to competition from existing products. Cellegesic, which is a prescription product, is expected to compete with over-the-counter products, such as Preparation H marketed by Wyeth, and various other prescription products. Cellegy's Fortigel product, if commercialized, is expected to compete with a currently marketed transdermal patch product sold by Watson Pharmaceuticals, two transdermal testosterone gel products marketed by Unimed/Solvay and Auxilium Pharmaceuticals and a buccal tablet marketed by Columbia Laboratories. As a result, we cannot assure you that Cellegy's products under development will be able to compete successfully with existing products or possible generic products under development by other organizations.

Therapies for sexual dysfunction and women's health products represent a large market opportunity, especially as the overall population continues to age, and many large companies currently market and are developing a wide variety of products in these markets. As the size of the market continues to grow, competition will expand. The approval and marketing of competitive products and other products that treat the indications targeted by Cellegy could adversely affect the market acceptance of Cellegy's products. The presence of directly competitive products could also result in more intense price competition than might otherwise exist, which could have a material adverse effect on Cellegy. We believe there are other pharmaceutical companies that are developing prescription testosterone replacement products for women, other generic manufacturers developing testosterone replacement products for men, and that competition will be intense for all of its female and male sexual dysfunction product candidates.

Employees

As of March 21, 2004, we had seventeen full-time and three part-time employees. Eleven of these employees, including one M.D. and three Ph.D.'s, are engaged in clinical research and development. In addition, we utilize the services of several professional consultants, as well as contract manufacturing and clinical research organizations to supplement our internal staff's activities. None of our employees are represented by a labor union. We have experienced no work stoppages and we believe that our employee relations are good.

Available Information

We are subject to the reporting requirements under the Securities Exchange Act of 1934. Consequently, we are required to file reports and information with the Securities and Exchange Commission (SEC), including reports on the following forms: annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports and other information concerning us may be obtained at the SEC's Public Reference Room at

450 Fifth Street, N.W., Washington, D.C. 20549 or accessed through the SEC's website at http://www.sec.gov. The SEC's Public Reference Room phone number is 1-800-SEC-0330. In addition, electronic copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are posted to our website (www.cellegy.com). Such filings are placed on our website as soon as reasonably possible after they are filed with the SEC.

ITEM 2: PROPERTIES

Cellegy currently leases 65,340 square feet of space located in South San Francisco, California with an estimated total 2004 rental cost of approximately $109,000 per month or $1,311,000 for 2004. Approximately 49,920 square feet of this space is currently subleased to one tenant with estimated 2004 offsetting total rental income of approximately $98,000 per month or $1,176,000 for 2004. We believe our current facilities will be adequate for our needs for expansion for the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS

Except as described below, Cellegy is not a party to any material legal proceedings.

In December 2002, Cellegy entered into an exclusive license agreement with PDI, Inc. ("PDI") to commercialize Fortigel in North American markets. Under the terms of the agreement, PDI's Pharmaceutical Products Group is responsible for the marketing and sale of Fortigel, if approved, utilizing its existing sales and marketing infrastructure. Cellegy received a payment of $15.0 million upon signing the agreement and is entitled to receive a milestone payment on FDA approval and royalties following a successful product launch. Cellegy is responsible for supplying finished product to PDI through Cellegy's contract manufacturer. In July 2003, the FDA issued a Not Approvable letter for our Fortigel NDA. In October 2003, Cellegy announced that it received a mediation notice from PDI. The dispute resolution provisions of the license agreement require non-binding mediation before either party may initiate further legal proceedings. The communication asserted several claims relating to the agreement, including Cellegy's breach of several provisions of the agreement and failure to disclose relevant facts, and PDI claimed several kinds of alleged damages, including return of the initial license fee that PDI paid to Cellegy when the agreement was signed. The parties subsequently conducted mediation as contemplated by the agreement but did not reach any resolution of the claims.

In December 2003, Cellegy and PDI then both initiated legal proceedings against each other relating to the agreement. Cellegy filed a declaratory judgment action in federal district court in San Francisco against PDI, and PDI initiated an action in federal district court in New York against Cellegy. In its action, Cellegy seeks, among other things, a declaration that it has fully complied with the license agreement and that PDI's claims are without merit. There can be no assurances regarding the outcome of either proceeding. The Company could be required to devote significant time and resources to the proceedings, and an adverse outcome could have a material adverse impact on our business and financial position.

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

No matters were submitted to a vote of our shareholders during the fourth quarter of the year ended December 31, 2003.

ITEM 4A: EXECUTIVE OFFICERS OF THE REGISTRANT

K. Michael Forrest	60	President and Chief Executive Officer, Director
John J. Chandler	62	Vice President, Corporate Development
A. Richard Juelis	55	Vice President, Finance and Chief Financial Officer
David A. Karlin, M.D.	60	Vice President, Clinical Research

K. Michael Forrest. Mr. Forrest has been President, CEO, and a director since December 1996. He also held the position of the Chairman of the Board from May 2000 to November 2003. From January 1996 to November

1996, he served as a biotechnology consultant. From November 1994 to December 1995, he served as President and CEO of Mercator Genetics, a private biotechnology company. From March 1991 to June 1994, he served as President and CEO of Transkaryotic Therapies, Inc., a public biotechnology company. From 1968 to 1991, Mr. Forrest held a series of positions with Pfizer, Inc. and senior management positions with American Cyanamid, including Vice President of Lederle U.S. and Lederle International. He is a director of INEX Pharmaceuticals, a public company developing anti-cancer products. Mr. Forrest holds a B.S. in Business Administration from Georgetown University, with concentrations in Marketing, Finance and Economics.

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

A. Richard Juelis. Mr. Juelis became Vice President, Finance and Chief Financial Officer in November 1994. From October 1990 to September 1994 he served as Vice President, Finance and Chief Financial Officer for two other publicly-traded biotechnology companies. Mr. Juelis has also held domestic and international financial and general management positions for seven years each with Hoffmann-LaRoche and Schering-Plough. He holds a B.S. in Chemistry from Fordham University and an M.B.A. from Columbia University.

David A. Karlin, M.D. Dr. Karlin joined Cellegy as Vice President, Clinical Research in October 2002. From February 2002 to July 2002, he served as Vice President, Clinical Development for Genteric, Inc., a privately held company specializing in gene therapy. From August 1999 to October 2001, Dr. Karlin was Senior Medical Director at Matrix Pharmaceuticals, a cancer and drug delivery company. He was Vice President, Clinical Research at SciClone Pharmaceuticals from 1995 to 1999. Prior to SciClone, Dr. Karlin held various positions at Syntex Corporation over a nine-year period. Before joining the pharmaceutical industry, Dr. Karlin was an Associate Professor at Temple University School of Medicine and an Assistant Professor at University of Texas M.D. Anderson Hospital and Tumor Institute. He was an instructor at the University of Chicago, where he received his medical degree, and had Gastroenterology and Gastrointestinal Oncology training at that University.

Executive officers are chosen by and serve at the discretion of the Board of Directors, subject to any written employment agreements with Cellegy.

PART II

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

Price Range of Common Stock

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

2002	High	Low
First Quarter	$ 8.80	$ 5.15
Second Quarter	6.90	2.02
Third Quarter	2.44	1.66
Fourth Quarter	4.35	1.50
2003		
First Quarter	$ 5.60	$ 3.71
Second Quarter	5.54	3.81
Third Quarter	5.22	2.25
Fourth Quarter	3.20	2.45

Holders

As of March 21, 2004, there were approximately 450 shareholders of record excluding beneficial holders of stock held in street name.

Dividend Policy

We have never paid cash or declared dividends on our common stock. We do not anticipate that we will declare or pay cash dividends on our common stock in the foreseeable future. We currently intend to retain our earnings, if any, for future growth. Future dividends on our common stock or other securities, if any, will be at the discretion of our board of directors and will depend on, among other things, our operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our board of directors may deem relevant.

Information with respect to equity compensation plans, including both stockholder approved plans and non-stockholder approved plans, is included in Item 12.

ITEM 6: SELECTED FINANCIAL DATA

The following unaudited selected historical information has been derived from audited consolidated financial statements of Cellegy. The financial information as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 are derived from our audited consolidated financial statements included elsewhere in this Form 10-K. The financial statements, related Notes thereto, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K should be read carefully.

	Years ended December 31,				
Statements of Operations Data: (In thousands, except per share data)	2003	2002 (Restated)	2001	2000	1999
Revenues	$ 1,620	$ 1,402	$ 877	$ 1,586	$ 1,045
Costs and expenses (1)	15,512	17,163	21,847	13,573	10,847
Operating loss	(13,892)	(15,761)	(20,970)	(11,987)	(9,802)
Other income (expense)	360	520	1,505	569	501
Net loss	$(13,532)	$(15,241)	$(19,465)	$(11,418)	$ (9,301)
Basic and diluted net loss per common share	$ (0.68)	$ (0.86)	$ (1.26)	$ (0.91)	$ (0.85)
Weighted average common shares used in computing basic and diluted net loss per common share	19,964	17,643	15,503	12,542	10,914

(1) For the year ended December 31, 2003, Cellegy recorded total non-cash compensation of $579,000 associated primarily with the modification of certain stock options and bonuses paid in stock.

For the year ended December 31, 2002, Cellegy recorded net non-cash credits of $504,000 of which non-cash compensation expense totaled $322,000. These were more than offset by a non-cash credit of $826,000 relating to the termination of the Ventiv Health marketing and sales agreement for Cellegesic in the third quarter of 2002.

During the year ended December 31, 2001, we recorded non-cash charges totaling $4,257,000, consisting of $3,507,000 for in-process research and development associated with the Vaxis acquisition and $750,000 in non-cash charges for two milestones paid in Cellegy stock to Neptune Pharmaceuticals.

Data for 2002 has been adjusted in a Form 10-K/A filing in March 2004 to reflect the Company's adjustment to the accounting treatment associated with certain employee and director stock options that had been cancelled in the fourth quarter of 2002. See also Note 13 to the Financial Statements. The adjustment reversed $695,000 of non-cash expense previously recorded in the fourth quarter of 2002 related to the intrinsic value of the vested options.

Quarterly Statements of Operations Data (unaudited):
(in thousands, except for per share data)

	2003 (2)							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	Total
	(Previously reported)	(Restated)	(Previously reported)	(Restated)	(Previously reported)	(Restated)		
Revenues	$ 392	$ 392	$ 263	$ 263	$ 414	$ 414	$ 551	$ 1,620
Operating loss	(2,636)	(3,284)	(4,769)	(4,352)	(1,974)	(2,676)	(3,580)	(13,892)
Net loss	(3,132)	(3,113)	(4,582)	(4,165)	(1,968)	(2,670)	(3,584)	(13,532)
Basic and diluted net loss per common share	$ (0.16)	$ (0.16)	$ (0.23)	$ (0.21)	$ (0.10)	$ (0.13)	$ (0.18)	$ (0.68)

(2) Quarterly financial data for 2003 has been adjusted in amended Form 10-Q/A filings in March 2004.

	2002				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(3)	Total
Revenues	$ 267	$ 150	$ 145	$ 840	$ 1,402
Operating loss	(4,642)	(5,753)	(1,756)	(3,610)	(15,761)
Net loss	(4,387)	(5,624)	(1,623)	(3,607)	(15,241)
Basic and diluted net loss per common share	$ (0.25)	$ (0.32)	$ (0.09)	$ (0.20)	$ (0.86)

(3) The financial data for the fourth quarter of 2002 has been adjusted in an amended Form 10-K/A filing in March 2004. The adjustment reversed $695,000 of non-cash expense previously recorded in the fourth quarter of 2002.

Balance Sheet Data: (In thousands)	December 31, 2003	2002	2001	2000	1999
		(Restated)			
Cash, cash equivalents, restricted cash and investments(4) ...	$ 11,564	$ 23,858	$ 17,190	$ 15,923	$ 16,737
Total assets	15,331	28,379	22,367	21,259	20,913
Long term portion of deferred revenue	13,335	14,168	--	--	--
Deficit accumulated during the development stage (5)	(99,149)	(85,617)	(70,377)	(50,912)	(39,494)
Total shareholders' equity (deficit)	$ (1,580)	$ 10,534	$ 19,845	$ 18,794	$ 15,839

(4) Includes restricted cash of $227,500 in 2003 and 2002, and $614,000 in 2001.

(5) The financial data for 2002 has been adjusted in a Form 10-K/A filing in March 2004. The adjustment reduced the accumulated deficit by $695,000.

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

This Annual Report includes forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These forward-looking statements are not guarantees of future performance and concern matters that could subsequently differ materially from those described in the forward-looking statements. Actual events or results may also differ materially from those discussed in this Annual Report. These risks and uncertainties include those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Operating Results" and elsewhere in this Annual Report. Except as required by law, we undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Annual Report.

Cellegy Pharmaceuticals is a development stage specialty biopharmaceutical company that develops and commercializes prescription drugs targeting primarily gastrointestinal conditions and sexual dysfunction using proprietary topical formulations and nitric oxide donor technologies. In January 2004, Cellegy reported positive results from a confirmatory Phase 3 clinical trial using Cellegesic(TM) (nitroglycerin ointment) for the treatment of chronic anal fissure pain. We now plan to submit an NDA to the FDA in the second quarter of this year. We are also developing other prescription drugs, including two transdermal testosterone gel products: Fortigel for the treatment of male hypogonadism and Tostrelle for the treatment of sexual dysfunction in menopausal women.

The Consolidated Financial Statements as of and for the year ended December 31, 2002 included in this Form 10-K have been restated. For additional information regarding the restatement, please refer to Note 13 to the Consolidated Financial Statements included in this Item 8. All applicable financial information presented in this Item 7 takes into account the effects of the restatement described in Note 13 to the Consolidated Financial Statements.

General

In November 2001, we acquired a private Canadian based company, Vaxis Therapeutics, valued at $4.1 million. The purchase was payable primarily in shares of Cellegy stock with the purchase price allocated to: net tangible assets of $250,000, intangible assets of $350,000 and $3,507,000 of in-process research and development. The intangibles of $350,000 are being amortized over five years and the in-process research and development was expensed in the fourth quarter of 2001. The results of operations of Cellegy Canada are included in our consolidated financial statements since the acquisition date.

In September 2002, Cellegy and Ventiv Health, Inc., a leading contract sales organization, terminated their services and funding Agreements related to Cellegesic based on the delay in commercialization of Cellegesic due to the withdrawal of the NDA and Cellegy's subsequent decision to conduct another Phase 3 trial. Cellegy and Ventiv originally signed a six-year Agreement in August 2001 to collaboratively commercialize Cellegesic in the United States. Ventiv was to have delivered integrated marketing and sales solutions providing pre-launch support, recruiting and training a sales force which would have been jointly managed by both companies.

In November 2002, we completed a private placement of 2.2 million shares of our common stock resulting in approximately $5.5 million of gross proceeds to Cellegy. The financing was with a single investor, John M. Gregory, founder and former CEO of King Pharmaceuticals and currently managing partner of SJ Strategic Investments LLC. Along with shares acquired in other open market purchases SJ Strategic Investments currently owns 5,828,993 shares or about 29% of Cellegy's outstanding shares.

In January 2004, Cellegy entered into a Structured Secondary Offering ("SSO") facility agreement with Kingsbridge Capital Limited. The facility requires Kingsbridge to purchase up to 3.74 million shares of newly issued common stock at times and in amounts selected by Cellegy over a period of up to two years, subject to certain restrictions.

Critical Accounting Policies and Estimates

Use of Estimates. The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates, judgements and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. We have identified below some of our more significant accounting policies. For further discussion of our accounting policies, see Note 1 in the Notes to Consolidated Financial Statements.

Revenue Recognition. Revenues related to cost reimbursement provisions under development contracts are recognized as the costs associated with the projects are incurred. Revenues related to substantive and at risk non-refundable milestones specified under development contracts are recognized as the milestones are achieved. Cellegy has received certain government grants that support our research effort in defined research projects. These grants generally provide for reimbursement of approved costs incurred as defined in the various grants. Revenues associated with these grants are recognized as costs under each grant are incurred. Revenues related to product sales are recognized upon shipment when title to the goods and risk of loss have been transferred to the customer. There is no right of return for our skin care product sales.

Up-front payments, such as the $15.0 million payment received from PDI for the Fortigel license, are recorded as deferred revenue at the time the cash is received. Amounts are recognized as revenue on a straight-line basis over the longer of the life of the contract or the service period. Royalties payable to Cellegy under the PDI License Agreement will be recognized as earned when the royalties are no longer refundable to PDI under certain minimum royalty terms defined in the agreement.

Long-Lived and Intangible Assets and Goodwill. Goodwill and other intangible assets are included in our December 31, 2003 balance sheet. Management reviews goodwill for impairment either on an annual basis or quarterly if an event occurs that might reduce the fair value of the long-lived asset below its carrying value. All other long-lived and intangible assets are reviewed for impairment whenever events or circumstances indicate that the

carrying amount of the asset may not be recoverable. An impairment loss would be recognized based on the difference between the carrying value of the asset and its estimated fair value, which would be determined based on either discounted future cash flows or other appropriate fair value methods. The evaluation of goodwill and other intangibles for impairment requires management to use significant judgments and estimates including, but not limited to, projected future revenue, operating results and cash flows.

Although management currently believes that the estimates used in the evaluation of goodwill and other intangibles are reasonable, differences between actual and expected revenue, operating results and cash flow could cause these assets to be deemed impaired. Based on management's analysis, no impairment was deemed to have occurred through December 31, 2003. If an impairment were to occur, Cellegy would be required to charge to earnings the write-down in value of such assets, which could have a material adverse effect on our results of operations and financial position.

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

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

Results of Operations

Years Ended December 31, 2003, 2002 and 2001

Revenues. Cellegy had revenues of $1,620,000, $1,402,000 and $877,000 in 2003, 2002 and 2001, respectively. Revenues in 2003 consisted of $385,000 in Australian Rectogesic ointment sales, $67,000 in initial Rectogesic sales in South Korea, $316,000 in skin care product sales to Gryphon Development, the product development arm of a major specialty retailer, $19,000 in Canadian government grants and $833,000 in licensing revenue for Fortigel. Revenues in 2002 consisted of $275,000 in Australian Rectogesic sales, $1,081,000 in product sales primarily to Gryphon and $46,000 in Canadian government grants. Revenues in 2001 were comprised of $217,000 in Australian Rectogesic sales and $660,000 in Gryphon sales.

Rectogesic revenues in Australia increased 40% in 2003, compared with 2002 following a 27% year over year increase in 2002 compared with 2001. The Company believes it has the potential to continue to gain market share and increase revenues in the future. Rectogesic was launched in the fourth quarter of 2003 in South Korea. We are not yet able to assess the market acceptance and revenue potential in South Korea. Skin Care moisturizer sales to Gryphon decreased by $765,000 or about 71% in 2003, compared with 2002. Gryphon sales will likely continue to fluctuate from period to period depending on their seasonal ordering patterns. We do not now expect any Gryphon sales orders through, at least, the first quarter of 2004. In 2003, Cellegy recorded total licensing revenue of $833,000 from PDI, with about $208,000 realized in each of the four quarters of 2003 reflecting the amortization over the expected commercial life of Fortigel of the initial $15.0 million received from PDI on the agreement date in December 2002. The Company expects the balance to be recorded as licensing revenue at the same quarterly rate in subsequent periods. See also Item 3: "Legal Proceedings."

Research and Development Expenses. Research and development expenses were $10,558,000 in 2003, compared with $10,403,000 in 2002 and $14,098,000 in 2001. Total research and development expenses, which are

primarily related to the costs of clinical trials and regulatory filings, represented 69%, 62% and 65% of our total operating expenses in 2003, 2002 and 2001, respectively. Total research and development expenses in 2003, compared with 2002, increased by $155,000 or about 2%. The increase was due to clinical expenses relating to the completion of a third Phase 3 Cellegesic clinical trial, primarily in the second half of 2003, as well as the write down of certain tenant improvements in our South San Francisco facility. These expenses were partially offset by Fortigel Phase 3 clinical trial costs and FDA user fees associated with the Fortigel NDA filing in 2002. Total research and development expenses in 2002, compared with 2001, decreased by $3,695,000 or about 26%. The decrease was due to higher spending levels associated with a second Cellegesic Phase 3 clinical trial and other clinical trials in 2001 and non-cash charges of $750,000 relating to Cellegesic milestone payments made in stock to Neptune Pharmaceuticals in 2001. In addition, during the second half of 2002, we eliminated our domestic research operations and reduced our research staff. We have continued to operate at these reduced staffing levels through 2003.

Current research and development expenses consist primarily of internal salaries and allocated costs as well as external clinical costs, including: clinical site payments, costs of manufacturing, testing and shipping clinical supplies and service fees to clinical research organizations ("CROs") that monitor the clinical sites and perform other related trial support services. Additionally, research expenses consist of regulatory costs, including the cost of filing product approval applications around the world, particularly NDAs in the United States, and the costs of various functional consultants to support the filings. We expect our clinical trial and regulatory filing expenses to continue to constitute the majority of our operating expenses in 2004. Excluding non-cash compensation expenses, we anticipate that our research and development expenses will decline during the first half of 2004 and increase thereafter with total 2004 clinical and regulatory expenses at about the 2003 level. Additional increases in clinical trial and regulatory filing expenses may occur if the FDA requires extensive additional clinical trials to support Fortigel marketing approval.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $4,768,000 in 2003, compared with $6,390,000 in 2002, and $4,042,000 in 2001. Total selling, general and administrative expenses in 2003 decreased by $1,622,000 or about 25%, compared with 2002 and were in turn $2,348,000 higher in 2002, compared with 2001. The higher spending level in 2002, compared with both 2003 and 2001, resulted primarily from Cellegesic pre-launch sales and marketing expenses of $2,094,000 in the first half of 2002. In addition, we incurred certain higher non-cash compensation expenses and investment banking fees in 2002.

Our selling, general and administrative expenses are expected to increase in the later half of 2004 in support of our business development programs and product commercialization efforts for Cellegesic, assuming a favorable response from the FDA on the Cellegesic NDA that we plan to file in the second quarter of 2004.

Non-cash Charges and Credits. Operating expenses for 2003, 2002 and 2001 were impacted by various non-cash charges and credits. Some of the non cash compensation charges are subject to periodic remeasurements and ongoing charges and credits are expected to vary in subsequent quarters.

Acquired-In-Process Research and Development. There were no acquired-in-process research and development expenses for 2003 and 2002. Acquired-in-process research and development expenses of $3,507,000 were incurred during 2001 as a result of the Vaxis acquisition.

Other Income (Expense). Cellegy recognized a net interest and other income of $360,000 for 2003, compared with net interest and other income of $521,000 and $1,505,000 for 2002 and 2001, respectively. The net interest and other income in 2003 consisted of $212,000 in interest income from cash and investments and $148,000 in rental and other income. In 2002, other income consisted primarily of $342,000 in interest income from cash and investments, $119,000 in rental income and a gain of $87,000 from disposal of certain laboratory equipment, offset by interest expense of $27,000. In 2001, other income was comprised of $635,000 in interest income on cash and investments and $897,000 in rental income, offset by interest expense of $27,000. Reductions in interest income over the last three years were due to lower average investment balances and interest rates. Interest expenses for 2002 and 2001 were related to the Ventiv loan and a commercial bank loan, respectively. Cellegy incurred no interest expense in 2003.

Net Loss. The net loss in 2003 was $13,532,000 or $0.68 per share based on 19,964,000 weighted average shares outstanding, compared with a net loss in 2002 of $15,241,000 or $0.86 per share based on 17,643,000 weighted average shares outstanding, and a net loss in 2001 of $19,465,000 or $1.26 per share based on 15,503,000 weighted average shares outstanding.

Liquidity and Capital Resources

We have experienced net losses from operations each year since our inception. Through December 31, 2003, we had incurred an accumulated deficit of $99.1 million and had consumed cash from operations of $65.6 million. Cash from equity financing transactions have included $6.4 million in net proceeds from our initial public offering in August 1995, $6.8 million in net proceeds from a preferred stock financing in April 1996, $3.8 million in net proceeds from a private placement of common stock in July 1997, $13.8 million in net proceeds from a follow-on public offering in November 1997, $10.0 million in net proceeds from a private placement in July 1999, $11.6 million in net proceeds from a private placement in October 2000, $15.2 million in net proceeds from a private placement in June 2001 and $5.2 million in net proceeds from a private placement in November 2002.

Our cash, restricted cash and investments were $11.6 million at December 31, 2003 compared with $23.9 million at December 31, 2002 and $17.2 million at December 31, 2001, including $227,000 of restricted cash in 2003 and 2002 and $614,000 of restricted cash, at year end 2001. The increase in cash, restricted cash and investments of $6.7 million in 2002 was principally due to the net proceeds from the $5.2 million financing completed in November and $15.0 million in payments from the licensing agreement with PDI in December, partially offset by other net cash used in operating activities of approximately $13.5 million. Cash, restricted cash and investments decreased by $12.3 million in 2003 principally due to cash used in support of operating activities of $12.5 million. The Company did not complete any financings in 2003.

During the fourth quarter of 2003 our cash, restricted cash and investment balance declined by $2.9 million. This is in line with Cellegy's goal to preserve cash and focus on key clinical and product development programs. We expect our cash use for the first quarter of 2004 to be at approximately the same monthly level as in the fourth quarter of 2003. Our cash needs throughout the rest of 2004 are expected to decrease due to a reduction in clinical trial activity followed by an increase in cash use in 2005. Future expenditures and capital requirements depend on numerous factors including, without limitation, the progress and focus of our research and development programs, the progress and results of pre-clinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the progress and outcome of the Cellegy/PDI litigations, the costs of filing, prosecuting, defending and enforcing patent claims, oppositions and appeals, our ability to establish new collaborative arrangement and the initiation of commercialization activities and working capital increases associated with the scale up and manufacture of Cellegesic.

At December 31, 2003, the Company had a deficit accumulated during the development stage of $99.1 million. The Company expects negative cash flow from operations to continue for at least the next two years, with the need to continue or expand their development programs and to commercialize products once regulatory approvals have been obtained. Management believes that its existing cash balances will be sufficient to meet the Company's capital and operating requirements through December 31, 2004.

However, expenditures required to achieve the Company's growth and profitability in the long term may be greater than projected or the cash flow generated from operations may be less than projected. As a result, the Company's long-term capital needs may require the Company to seek to obtain additional funds through equity or debt financing, collaborative or other arrangements with other companies, bank financing and other sources. There can be no assurance that the Company will be able to obtain additional debt or equity financing on terms acceptable to the Company, or at all. If adequate funds are not available, the Company could be required to delay development or commercialization of certain products, to license to third parties the rights to commercialize certain products that the Company would otherwise seek to commercialize internally, or to reduce resources devoted to product development. Accordingly, the failure of the Company to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company's ability to achieve its longer term business objectives.

In the fourth quarter of 1998, we entered into a ten-year operating lease commitment on our facility with our current landlord. Our operating lease commitments are $1,337,000 for 2004 and $5,700,000 thereafter in annual amounts of approximately $1.3 to $1.5 million. Information about this commitment as of December 31, 2003 is presented in the table below (in thousands):

Contractual Obligations	Total	2004	2005	2006	2007	2008
Operating lease	$7,037	$1,337	$1,377	$1,415	$1,433	$1,475

We sublease a portion of our facility and receive rental income from our sublease. Future sublease income is approximately $1,176,000 for 2004 and $4,843,000 thereafter in annual amounts of approximately $1.0 to $1.3 million.

In January 2004, Cellegy entered into a Structured Secondary Offering ("SSO") facility agreement with Kingsbridge Capital Limited. The facility requires Kingsbridge to purchase up to 3.74 million shares of newly issued common stock at times and in amounts selected by Cellegy over a period of up to two years, subject to certain restrictions. Cellegy may begin to draw down funds after the effectiveness of a registration statement that the Company intends to file with the Securities and Exchange Commission. The dollar amount of stock that Cellegy may require Kingsbridge to purchase will depend in part on the market price of the common stock at the time that the registration statement is filed and that shares are sold. The agreement does not prohibit Cellegy from conducting additional debt or equity financings, including PIPEs, shelf offerings, secondary offerings or any other non-fixed or future priced securities. The timing and amount of any draw downs are at Cellegy's sole

discretion, subject to certain timing conditions, and are limited to certain maximum amounts depending in part on the then current market capitalization of the Company. Kingsbridge is not obligated to purchase shares at market prices below $1.25 per share. The purchase price of the common stock will be at discounts ranging from 8% to 12% of the average market

price of the common stock prior to each future draw down. The lower discount applies to higher stock prices. In connection with the agreement, Cellegy issued warrants to Kingsbridge to purchase 260,000 common shares at an exercise price of $5.27 per share. Cellegy can, at its discretion and based on its cash needs, determine how much, if any, of the equity line it will draw down in the future, subject to the other conditions in the agreement.

In order to complete the research and development and other activities necessary to commercialize our products, financings in addition to the Kingsbridge SSO will likely be required. As a result, we may seek private or public equity investments and future collaborative arrangements or other transactions with third parties to meet such needs. However, there is no assurance that financing will be available for us to fund our operations on acceptable terms, if at all. We believe that available cash resources and the interest thereon will be adequate to satisfy our capital needs through, December 2004, assuming no material adverse financial impact associated with PDI litigation and any subsequent legal proceedings.

Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We do not expect the adoption of EITF issue No. 00-21 to have a material impact on our financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. During December 2003, the FASB issued FIN 46R, a revision to FIN 46. FIN 46R provides a broad deferral of the latest date by which all public entities must apply FIN 46 to certain variable interest entities, to the first reporting period ending after March 15, 2004. We do not expect the adoption of FIN 46 to have a material impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability or an asset in some circumstances. Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. While the effective date of certain elements of SFAS No. 150 has been deferred, we do not expect the adoption of SFAS No. 150 to have a material impact on our financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," which codifies, revises and rescinds certain sections of SAB No. 101, "Revenue Recognition," in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material adverse effect on the Company's financial position or results of operations.

Factors That May Affect Future Operating Results

Risks Relating to Our Business

We are subject to regulation by regulatory authorities including the FDA, which could delay or prevent marketing of our products. Unexpected regulatory outcomes could adversely affect our business and stock price.

Cellegy's prescription product candidates, and our ongoing research and clinical activities such as those relating to our product candidates Cellegesic, Fortigel and Tostrelle, are subject to extensive regulation by governmental regulatory authorities in the United States and other countries. Before we obtain regulatory approval for the commercial sale of our potential drug products, we must demonstrate through pre-clinical studies and clinical trials that the product is safe and efficacious for use in the clinical indication for which approval is sought. The timing of NDA submissions, the outcome of reviews by the FDA and the initiation and completion of other clinical trials are subject to uncertainty, change and unforeseen delays. Under the Prescription Drug User Fee Act ("PDUFA"), the FDA establishes a target date to complete its review of an NDA. Although the FDA attempts to respond by the relevant PDUFA date to companies that file NDAs, there is no obligation on the FDA's part to do so. In addition, extensive current pre-clinical and clinical testing requirements and the current regulatory approval process of the FDA in the United States and of certain foreign regulatory authorities, or new government regulations, could prevent or delay regulatory approval of Cellegy's products.

The process of developing and obtaining approval for a new pharmaceutical product within this regulatory framework requires a number of years and substantial expenditures. There can be no assurance that necessary approvals will be obtained on a timely basis, if at all. Delays in obtaining regulatory approvals could have a material adverse effect on us. If we fail to comply with applicable regulatory requirements, we could be subject to a wide variety of serious administrative or judicially imposed sanctions and penalties, any of which would materially and adversely affect our business, results of operations and stock price.

One or more of our ongoing or planned clinical trials could be delayed, or the FDA could issue a Not Approvable letter with respect to our future NDAs, as it did with our Fortigel NDA in July 2003. Such actions could result in further clinical trials or necessitate other time consuming or costly actions to satisfy regulatory requirements. The FDA may decide to have an Advisory Panel review the submission of our product candidates with an uncertain outcome of such panel's recommendation, or take other actions having the effect of delaying or preventing commercial introduction of our products. Similarly, the FDA or other regulatory agencies could impose requirements on future trials that could delay the regulatory approval process for our products. There can be no assurance that the FDA or other regulatory agencies will find any of our trial data, including our soon to be filed NDA for Cellegesic or other sections of our regulatory submissions, sufficient to approve any of our product candidates for marketing in the United States or in other overseas markets.

In January 2004, Cellegy reported positive results from its confirmatory Phase 3 study using Cellegesic for the treatment of chronic anal fissure pain. We now plan to submit an NDA to the FDA in the second quarter of 2004. The trial was conducted according to a Special Protocol Assessment ("SPA"), that was agreed upon by Cellegy and the FDA. An SPA is intended to provide assurance that if the pre-specified primary endpoint is achieved and no unexpected results are seen, the FDA will approve the product for commercial sale. Cellegy believes that it achieved the primary endpoint specified in the SPA; however, the FDA will conduct its own analysis and may reach a different conclusion. Failure of the FDA to approve Cellegesic for marketing or imposition by the FDA of significant additional studies or other requirements before granting marketing approval, could have a material adverse effect on Cellegy's business and stock price.

Sales of Cellegy's products outside the United States are subject to different regulatory requirements governing clinical trials and marketing approval. These requirements vary widely from country to country and could delay introduction of Cellegy's products in those countries.

Our clinical trial results are very difficult to predict in advance, and the clinical trial process is subject to delays. Failure of one or more clinical trials or delays in trial completion could adversely affect our business and our stock price.

Results of pre-clinical studies and early clinical trials may not be good predictors of results that will be obtained in later-stage clinical trials. We cannot assure you that Cellegy's present or future clinical trials, including, for example, the Phase 2 study for Tostrelle or the Cellegesic Phase 2 hemorrhoid trial, will demonstrate the results required to continue advanced trial development and allow us to seek marketing approval for these or our other product candidates. Because of the independent and blind nature of certain human clinical testing, there will be extended periods during the testing process when we will have only limited or no access to information about the

status or results of the tests. Cellegy and other pharmaceutical companies have believed that their products performed satisfactorily in early tests, only to find their performance in later tests, including Phase 3 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 stock prices have fallen precipitously.

Delays in the clinical trial process can be extremely costly in terms of lost sales opportunities and increased clinical trial costs. The speed with which we complete our clinical trials and our regulatory submissions, including NDAs, will depend on several factors, including the following:

- the rate of patient enrollment, which is affected by the size of the patient population, the proximity of patients to clinical sites, the difficulty of the entry criteria for the study and the nature of the protocol;
- the timely completion of clinical site protocol approval and obtaining informed consent from subjects;
- analysis of data obtained from preclinical and clinical activities;
- changes in policies or staff personnel at regulatory agencies during the lengthy drug application review; and
- the availability of experienced staff to conduct and monitor clinical studies, internally or through contract research organizations.

We have a history of losses, and we expect losses to continue for at least several years. We could be subject to delisting by the Nasdaq National Market.

Our accumulated deficit as of December 31, 2003 was approximately $99.1 million. We have never operated profitably and, given our planned level of operating expenses, we expect to continue to incur losses through at least 2004. We plan to increase our operating expenses as we continue to devote significant resources to pre-clinical studies, clinical trials, administrative, marketing, sales and patent activities. Accordingly, without substantial revenues from new corporate collaborations, royalties on product sales or other revenue sources, we expect to incur substantial operating losses in the foreseeable future as our potential products move through development, and we continue to invest in research and clinical trials. Our losses may increase in the future, and even if we achieve our revenue targets, we may not be able to sustain or increase profitability on a quarterly or annual basis. The amount of future net losses, and the time required to reach profitability, are both highly uncertain. To achieve sustained profitable operations, we must, among other things, successfully discover, develop, obtain regulatory approvals for and market pharmaceutical products. We cannot assure you that we will ever be able to achieve or sustain profitability.

Cellegy's common stock is currently listed on the NASDAQ National Market. There are several requirements for the continued listing of our common stock on the NASDAQ National Market, including requirements relating to stock price and to compliance with certain financial standards. If we fail to satisfy one or more of the criteria for continued listing and are unable to demonstrate compliance within the time periods permitted by NASDAQ, our common stock would be delisted from the NASDAQ National Market and we would likely seek a listing on the NASDAQ SmallCap Market or some other market. Delisting from the NASDAQ National Market would have a material adverse effect on our business and stock price.

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

Throughout our history, we have consumed substantial amounts of cash. Our cash needs are expected to decrease throughout 2004 due to a reduction in clinical trial activity followed by an increase in 2005 in order to fund the additional expenses required to continue or expand our development programs and to commercialize our products once regulatory approvals have been obtained. Cellegy has no current source of significant ongoing revenues or capital beyond existing cash and investments, certain product sales of Rectogesic and skin care moisturizers and access to funding through the Kingsbridge SSO. The amount of cash required will depend on numerous factors including, without limitation: requirements in support of our development programs, the progress and results of pre-clinical and clinical testing, the time and costs involved in obtaining regulatory approvals, including the cost of complying with potential additional FDA information and/or

clinical trial requirements to obtain marketing approval of our Fortigel product candidate, the costs of filing, prosecuting, defending and enforcing our intellectual property rights, the outcome of the PDI litigation, and legal costs and/or potential settlement payments associated with these legal proceedings. In order to complete the development, manufacturing and other pre-launch marketing activities necessary to commercialize our products, additional financing will be required.

In addition to the Kingsbridge SSO facility, Cellegy may seek private or public equity investments and future collaborative arrangements with third parties to help fund future cash needs. There is no assurance that such funding will be available for us to finance our operations on acceptable terms, if at all, and any future equity funding may involve significant dilution to our shareholders. Under certain circumstances we could be prevented from or be limited in fully utilizing planned funding from the Kingsbridge SSO. Insufficient funding may require us to delay, reduce or eliminate some or all of our research and development activities, planned clinical trials, administrative programs, personnel, outside services and facility costs. In addition, Cellegy would be subject to de-listing by the NASDAQ National Market if certain financial standards are not maintained. Cellegy believes that available cash resources and interest earned thereon will be adequate to satisfy its capital needs through December 2004, assuming no material adverse financial impact associated with PDI litigation and any subsequent legal proceedings.

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

Cellegy's success depends, in part, on our ability to obtain patent protection for our products and methods, both in the United States and in other countries. Several of Cellegy's products and product candidates, such as Cellegesic, Fortigel and Tostrelle, are based on existing molecules with a history of use in humans but which are being developed by us for new therapeutic uses or in novel delivery systems which enhance therapeutic utility. We cannot obtain composition patent claims on the compounds themselves, and will instead need to rely on patent claims, if any, directed to use of the compound to treat certain conditions or to specific formulations. This is the case, for example, with our United States patents relating to Cellegesic and Fortigel. Such method-of-use patents may provide less protection than a composition-of-matter patent, because of the possibility of "off-label" use of the composition. Cellegy may not be able to prevent a competitor from using a different formulation or compound for a different purpose.

No assurance can be given that any additional patents will be issued to us, that the protection of any patents that may be issued in the future will be significant, or that current or future patents will be held valid if subsequently challenged. For example, oppositions have been filed with the European Patent Office regarding our European patent protecting the manufacture and use of nitroglycerin ointment and related compounds for the treatment of anal disorders, including fissures and various hemorrhoidal conditions. In December 2003, we reported that the Board of Opposition of the European Patent Office had rendered a verbal decision revoking Cellegy's European patent relating to its Cellegesic product and related compounds for the treatment of anal disorders, including fissures and various hemorrhoidal conditions. Although Cellegy intends to appeal this decision, an additional adverse outcome in the appeal process could have a negative effect on Cellegy, impacting the success of our marketing and corporate licensing efforts in Europe and adversely affecting our business and stock price.

The patent position of companies engaged in businesses such as Cellegy's business generally is uncertain and involves complex legal and factual questions. There is a substantial backlog of patent applications at the United States Patent and Trademark Office ("USPTO"). Patents in the United States are issued to the party that is first to invent the claimed invention. There can be no assurance that any patent applications relating to Cellegy's products or methods will issue as patents, or, if issued, that the patents will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide us a competitive advantage.

In addition, many other organizations are engaged in research and product development efforts in drug delivery and topical formulations that may overlap with Cellegy's products. Such organizations may currently have, or may obtain in the future, legally blocking proprietary rights, including patent rights, in one or more products or methods under development or consideration by Cellegy. These rights may prevent us from commercializing technology, or may require Cellegy to obtain a license from the organizations to use the technology. Cellegy may not be able to obtain any such licenses that may be required on reasonable financial terms, if at all, and cannot be sure that the patents underlying any such licenses will be valid or enforceable. Moreover, the laws of certain foreign countries do

not protect intellectual property rights relating to United States patents as extensively as those rights are protected in the United States. The issuance of a patent in one country does not assure the issuance of a patent with similar claims in another country, and claim interpretation and infringement laws vary among countries, so the extent of any patent protection is uncertain and may vary in different countries. As with other companies in the pharmaceutical industry, we are subject to the risk that persons located in other countries will engage in development, marketing or sales activities of products that would infringe our patent rights if such activities were in the United States.

Our product sales strategy involving corporate partners is highly uncertain.

Cellegy is seeking to enter into agreements with corporate partners regarding commercialization of our lead product candidates. Besides the Fortigel license agreement with PDI, which is currently subject to litigation between the parties, Cellegy currently has a limited number of other agreements with third parties to commercialize our product candidates. Cellegy may not be able to establish other collaborative arrangements and we may not have the resources or the experience to successfully commercialize any such products on our own, particularly in overseas markets. Failure to enter into other arrangements could prevent, delay or otherwise have a material adverse effect on our ability to develop and market products, including our Cellegesic product in the United States, and our Tostrex and Rectogesic products, in markets outside of North America.

With the current and future planned corporate partner arrangements, we may rely on our partners to conduct clinical trials, obtain regulatory approvals and, if approved, manufacture, distribute, market or co-promote these products. Reliance on third party partners can create risks to our product commercialization efforts. Once agreements are completed, particularly if they are completed at a relatively early stage of product development, Cellegy may have little or no control over the development or marketing of these potential products and little or no opportunity to review clinical data before or after public announcement of results. Further, any arrangements that may be established may not be successful or may be subject to dispute or litigation between the parties.

In October 2003, Cellegy announced that it had received a communication on behalf of PDI invoking mediation procedures under the exclusive license agreement between PDI and Cellegy relating to Fortigel. The dispute resolution provisions of the agreement required non-binding mediation before either party could initiate further legal proceedings. Mediation proceedings were completed in early December 2003, after which both PDI and Cellegy initiated litigation proceedings. Although Cellegy believes PDI's claims are without merit, there can be no assurances regarding the outcome of any such proceedings, or any potential counterclaims by PDI, and the Company could be required to devote significant time and resources to the proceedings. An adverse outcome in any such proceeding could have a material adverse financial impact on Cellegy.

We do not have any history of manufacturing products, and we have a limited number of critical suppliers.

Cellegy has no direct experience in manufacturing commercial quantities of products and currently does not have any capacity to manufacture products on a large commercial scale. We currently rely on a limited number of contract manufacturers, primarily PendoPharm Inc., and certain other suppliers to manufacture our formulations. Although we are developing other contract manufacturers, there can be no assurance that we will be able to enter into acceptable agreements with them or successfully validate their facilities on a timely basis. In the future, we may not be able to obtain contract manufacturing on commercially acceptable terms for compounds or product formulations in the quantities we need. Manufacturing or quality control problems, lack of financial resources or qualified personnel could occur with our contract manufacturers causing product shipment delays, inadequate supply, or causing the contractor not to be able to maintain compliance with the FDA's current good manufacturing practice requirements necessary to continue manufacturing. Such problems could limit our ability to produce clinical or commercial product and otherwise adversely affect Cellegy's business and stock price.

In July 2003, PanGeo Pharma, Cellegy's major contract manufacturer, filed for bankruptcy protection under Canadian law. Under a re-organization plan, PanGeo sold its facilities to an affiliate of Pharmasciences, another Canadian manufacturer, and was re-named PendoPharm Inc. Uncertainty exists concerning the future operations of the manufacturing plant that is used to manufacture products for Cellegy, and there can be no assurance that PendoPharm will be able to meet Cellegy's clinical and product requirements on a timely basis, if at all, in the future. Cellegy is engaged in establishing production arrangements at a domestic location, although this is an expensive and

time consuming process. There may be delays and additional costs relating to the technical transfer and validation of alternate suppliers.

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

We may market certain of our products, if successfully developed and approved, through a direct sales force in the United States and through sales and marketing partnership or distribution arrangements outside the United States. Cellegy has very limited experience in sales, marketing or distribution. To market certain of our products directly, we may establish a direct sales force in the United States or obtain the assistance of our marketing partner. If we enter into marketing or licensing arrangements with established pharmaceutical companies, our revenues will be subject to the terms and conditions of such arrangements and will be dependent on the efforts of our partner. Cellegy may not have the financial capability to successfully establish a direct sales force or our collaborators may not effectively market our products. Either circumstance could have a material adverse effect on the successful commercialization of our products and ultimate profitability.

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

Our success is dependent upon the efforts of a small management team and staff. We have employment agreements and a severance/retention plan in place with certain executives, but none of our executives are legally bound to remain employed for any specific term. If key individuals leave Cellegy, we could be adversely affected if suitable replacement personnel are not quickly recruited. Our future success depends upon our ability to continue to attract and retain qualified scientific, clinical, marketing and administrative personnel. There is competition for qualified personnel in all functional areas, which makes it difficult to attract and retain the qualified personnel necessary for the development and growth of our business.

Risks Relating to Our Industry

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

The pharmaceutical industry is subject to rapid and significant technological change. In the development and marketing of prescription drugs, Cellegy faces intense competition. Cellegy is much smaller in terms of size and resources than many of its competitors in the United States and abroad, which include, among others, major pharmaceutical, chemical, consumer product, specialty pharmaceutical and biotechnology companies, universities and other research institutions. Cellegy's competitors may succeed in developing technologies and products that are safer and more effective than any that we are developing and could render Cellegy's technology and potential products obsolete and noncompetitive. Many of these competitors have substantially greater financial and technical resources, clinical production and marketing capabilities and regulatory experience. In addition, Cellegy's products are subject to competition from existing products. For example, Cellegy's Fortigel product, if ever commercialized in the United States, is expected to compete with two currently marketed testosterone gel products sold by Unimed/Solvay and Auxilium Pharmaceuticals, a transdermal patch product sold by Watson Pharmaceuticals, a Buccal tablet from Columbia Laboratories and potential generic products which may be introduced before or after Fortigel is commercialized.

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

We are subject to the risk of product liability lawsuits.

The testing, marketing and sale of human health care products entails an inherent risk of allegations of product liability. We are subject to the risk that substantial product liability claims could be asserted against us in the future. Cellegy has obtained $5 million in insurance coverage relating to our clinical trials. There can be no assurance that Cellegy will be able to obtain or maintain insurance on acceptable terms, particularly in overseas locations, for

clinical and commercial activities or that any insurance obtained will provide adequate protection against potential liabilities.

Risks Relating to Our Stock

Our stock price could be volatile.

Our stock price has from time to time experienced significant price and volume fluctuations. Since becoming a public company, our stock price has fluctuated in conjunction with the Nasdaq Stock Market generally and sometimes on matters more specific to Cellegy, such as an announcement of clinical trial or regulatory results or other corporate developments. Announcements that could significantly impact our stock price include:

- Publicity or announcements regarding regulatory developments relating to our products particularly Fortigel and Cellegesic;
- Clinical trial results, particularly the outcome of our more advanced studies; or negative responses from regulatory authorities with regard to the approvability of our products;
- Period-to-period fluctuations in our financial results, including our cash and investment balance, operating expenses, cash burn rate or revenues;
- Negative announcements, additional legal proceeding or financial problems of our key suppliers, particularly relating to our Canadian manufacturer and our service providers;
- A negative outcome in litigation or other potential legal proceedings with PDI relating to the Fortigel license agreement; or
- Other potentially negative financial announcements, including delisting from the Nasdaq National Market or SEC, review of any of our filings by the Securities and Exchange Commission, changes in accounting treatment or restatement of previously reported financial results or delays in our filings with the SEC.

The Kingsbridge SSO financing arrangement may have a dilutive impact on our stockholders. The SSO arrangement imposes certain limitations on our ability to issue equity or equity-linked securities

There are 4,000,000 shares of our common stock that are reserved for issuance under the Kingsbridge SSO, 260,000 of which is related to the warrant issued to Kingsbridge. In certain circumstances where the registration statement covering these shares that the Company is obligated to file is not effective or available to Kingsbridge, additional shares may be issuable to Kingsbridge under the agreement. The issuance of shares under the SSO, at a discount to the market price of the common stock, and upon exercise of the warrants will have a dilutive impact on other shareholders and the issuance or even potential issuance of such shares, if any, could have a negative effect on the market price of our common stock. If we sell stock to Kingsbridge when our share price is decreasing, such issuance will have a more dilutive effect and may further decrease our stock price.

To the extent that Kingsbridge sells shares of our common stock issued under the SSO to third parties, our stock price may decrease due to the additional selling pressure in the market. The perceived risk of dilution from sales of stock to or by Kingsbridge may cause holders of our common stock to sell their shares or encourage short sales. This could contribute to decline in our stock price.

During the two-year term of the Kingsbridge SSO, we are subject to certain restrictions on our ability to engage in certain equity or equity-linked financings without the consent of Kingsbridge. These restrictions primarily relate to non-fixed, future-priced securities. We may not issue securities that are, or may become, convertible or exchangeable into shares of common stock where the purchase, conversion or exchange price for such common stock is determined using a floating or otherwise adjustable discount to the market price of the common stock during the two year term of our agreement with Kingsbridge. However, the agreement does not prohibit us from conducting most kinds of additional debt or equity financings, including PIPES, shelf offerings, and secondary offerings.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Cellegy invests its excess cash in short-term, investment grade, fixed income securities under an investment policy. All of our investments are classified as available-for-sale (see Financial Statements - Note 2). All of our securities owned as of December 31, 2003 will mature in 2004, with the remainder in money market funds. We believe that potential near-term losses in future earnings, fair values or cash flows related to our investment portfolio are not significant.

At December 31, 2003, our investment portfolio consisted of $3,687,000 in corporate notes. We currently do not hedge interest rate exposure. If market interest rates were to increase by 100 basis points or 1% from December 2003 levels, the fair value of our portfolio would decline by no more than $5,000. The modeling technique used measures the change in fair value from a hypothetical shift in market interest rates.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by Item 8 are set forth below on pages F-1 through F-24 of this report.

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

The disclosure called for by this Item has previously been provided by the Company on a Report on Form 8-K filed with the Securities and Exchange Commission on November 4, 2003, as amended by a report on Form 8-K/A filed November 20, 2003.

ITEM 9A: CONTROLS AND PROCEDURES (Additional language forthcoming from PWC)

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2003. Based on their evaluation, our principal executive officer and principal accounting officer concluded that our disclosure controls and procedures were effective as of December 31, 2003.

As discussed in Note 13 to the Consolidated Financial Statements, the Company has restated certain financial results and filed in an amended 2002 Annual Report on Form 10-K/A and amended quarterly reports on Form 10-Q/A for the first three quarters of 2003 in March 2004. The circumstances causing the restatement arose due to the complex nature of the accounting treatment of certain stock options that had been cancelled. As a result of the restatement, we reevaluated the effectiveness of our disclosure controls and procedures. Based upon this reevaluation we believe that our controls and procedures are effective and that no changes in such procedures or our internal controls are necessary or appropriate.

(b) Changes in Internal Controls

There were no changes in the Company's internal controls over financial reporting identified in connection with the evaluation by the Chief Executive Offer and Chief Financial Officer that occurred during the Company's fourth quarter that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item with respect to directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 may be found in the sections captioned "Election of Cellegy Directors" and "Compliance under Section 16(a) of the Securities Exchange Act of 1934" appearing in the definitive Proxy Statement (the "2004 Proxy Statement") to be delivered to shareholders in connection with the Annual Meeting of Shareholders expected to be held in June 2004. Such information is incorporated herein by reference. Information required by this Item with respect to executive officers may be found in Part I hereof in the section captioned "Executive Officers of the Registrant."

ITEM 11: EXECUTIVE COMPENSATION

Information with respect to this Item may be found in the section captioned "Executive Compensation" appearing in the 2004 Proxy Statement and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to this Item may be found in the sections captioned "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plans" appearing in the 2004 Proxy Statement and is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to this Item may be found in the section captioned "Certain Relationships and Related Transactions" appearing in the 2004 Proxy Statement and is incorporated herein by reference.

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this Item may be found in the section captioned "Principal Accountant Fees and Services" appearing in the 2004 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Exhibits

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

Exhibit Number	Exhibit Title
2.1	Asset Purchase Agreement dated December 31, 1997 between the Company and Neptune Pharmaceutical Corporation. (Confidential treatment has been granted with respect to portions of this agreement.) (Incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-3, file no. 333-46087, filed on February 11, 1998, as amended.)
3.1	Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 (Registration No. 33-93288 LA) declared effective on August 11, 1995 (the "SB-2").)
3.2	Certificate of Amendment of Amended and Restated Articles of Incorporation filed with the California Secretary of State on August 6, 2002.
3.3	Bylaws of the Company. (Incorporated by reference to Exhibit 3.3 to the SB-2.)
4.1	Specimen Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the SB-2.)
*10.1	1992 Stock Option Plan. (Incorporated by reference to Exhibit 10.12 to the SB-2.)
*10.2	1995 Equity Incentive Plan. (Incorporated by reference to Exhibit 4.03 to the Company's Registration Statement on Form S-8 (Registration No. 333-91588) filed on June 28, 2002.
*10.3	1995 Directors' Stock Option Plan. (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the fiscal quarter ended filed June 30, 2002.)
10.4	Loan and Security Agreement between Silicon Valley Bank and the Company dated June 10, 1998. (Incorporated by reference to Exhibit 10.01 to the Company's Form 10-QSB for the fiscal quarter ended June 30, 1998.)
10.5	Lease Agreement between the Company and TCNorthern California Inc. dated April 8, 1998. (Incorporated by reference to Exhibit 10.01 to the Company's Form 10-QSB for the fiscal quarter ended March 31, 1998.)
*10.6	Employment Agreement, effective January 1, 2003, between the Company and K. Michael Forrest.
10.7	Share Purchase Agreement dated as of November 27, 2001, by and among the Company, Vaxis Therapeutics Corporation and certain stockholders of Vaxis. (Incorporated by reference to Exhibit 10.14 to the Company's Form 10-K for the fiscal year ended December 31, 2001.)
10.8	Exclusive License Agreement dated as of December 31, 2002, by and between the Company and PDI, Inc. (Confidential treatment has been requested with respect to portions of this agreement.) (Incorporated herein by reference to Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 2002.)
10.9	Common Stock Purchase Agreement dated January 16, 2004 between Cellegy Pharmaceuticals, Inc. and Kingsbridge Capital Limited.
10.10	Registration Rights Agreement dated January 16, 2004 between Cellegy Pharmaceuticals, Inc. and Kingsbridge Capital Limited.
10.11	Warrant dated January 16, 2004 issued to Kingsbridge Capital Limited.
10.12	Retention and Severance Plan.

10.13	Form of Agreement of Plan Participation under Retention and Severance Plan.
*10.14	Letter agreement dated November 6, 2003 between Cellegy Pharmaceuticals, Inc. and Richard C. Williams.
*10.15	Stock option agreement dated November 6, 2003 between Cellegy Pharmaceuticals, Inc. and Richard C. Williams.
*10.16	Form of Indemnity Agreement between the Company and its directors and executive officers.
21.1	Subsidiaries of the Registrant.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Accountants.
23.2	Consent of Ernst & Young LLP, Independent Auditors.
24.1	Power of Attorney (See signature page.)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Represents a management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

Information regarding reports on Form 8-K and 8-K/A that we filed during our fourth quarter ended December 31, 2003, is as follows:

Date Filed or Furnished	Item Number	Description
October 27, 2003	Items 5 and 7	Initiation by PDI, Inc. of Non-Binding Mediation Proceedings
November 4, 2003	Items 4 and 7	Change in Registrant's Independent Accountant
November 6, 2003	Items 12 and 7	Third Quarter Financial Results
November 7, 2003	Items 5 and 7	Announcement of Changes to Cellegy's Board of Directors
November 20, 2003	Items 4 and 7	Change in Registrant's Independent Accountant
December 15, 2003	Items 4 and 7	Announcement of Resignation of Director, Dr. Ronald J. Saldarini; Filing of Declaratory Judgement Action against PDI, Inc.; European Patent Board's Decision regarding Cellegesic Patent

(c) Financial Statement Schedules

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of South San Francisco, State of California, on the 6th of April, 2004.

CELLEGY PHARMACEUTICALS, INC.

By: /s/ K. Michael Forrest

K. Michael Forrest
President and Chief Executive Officer

Power of Attorney

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

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

Name	Title	Date
Principal Executive Officer:		
/s/ K. Michael Forrest K. Michael Forrest	President, Chief Executive Officer and Director	April 6, 2004
Principal Financial Officer and Principal Accounting Officer:		
/s/ A. Richard Juelis A. Richard Juelis	Vice President, Finance, Chief Financial Officer and Secretary	April 6, 2004
Directors:		
/s/ Richard C. Williams Richard C. Williams	Chairman of the Board, Director	April 6, 2004
/s/ John Q. Adams, Sr. John Q. Adams, Sr.	Director	April 6, 2004
/s/ Tobi B. Klar, M.D. Tobi B. Klar, M.D.	Director	April 6, 2004
/s/ Robert B. Rothermel Robert B. Rothermel.	Director	April 6, 2004
/s/ Thomas M. Steinberg Thomas M. Steinberg	Director	April 6, 2004

Index to Financial Statements

Report of Independent Auditors

To the Board of Directors and Shareholders of
Cellegy Pharmaceuticals, Inc.:

In our opinion, the consolidated financials statements listed in the accompanying index present fairly, in all material respects, the financial position of Cellegy Pharmaceuticals, Inc. and its subsidiaries (a development stage company) at December 31, 2003, and the results of their operations and their cash flows for the year then ended and, cumulatively for the period from January 1, 2003 to December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. 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 audit. We did not audit the cumulative totals of the Company for the period from June 26, 1989 (inception) to December 31, 2002, which totals reflect a deficit of 86.4 percent of the related total cumulative amount accumulated during the development stage. Those cumulative totals were audited by other auditors whose report, dated February 13, 2003 (except for Note 13, as to which the date is March 24, 2004), expressed an unqualified opinion on the cumulative amounts and included an explanatary paragraph that indicated that the consolidated financial statements as of and for the year ended December 31, 2002 have been restated as described in Note 13. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewatershouseCoopers LLP

San Jose, California
April 6, 2004

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Shareholders
Cellegy Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheet of Cellegy Pharmaceuticals, Inc. (a development stage company) as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2002, and for the period from June 26, 1989 (inception) through December 31, 2002 (not separately presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cellegy Pharmaceuticals, Inc. (a development stage company) at December 31, 2002 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2002, and for the period from June 26, 1989 (inception) through December 31, 2002, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements as of and for the year ended December 31, 2002 have been restated as discussed in Note 13.

/s/ Ernst & Young LLP

Palo Alto, California
February 13, 2003 (except for Note 13,
as to which the date is March 24, 2004)

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Balance Sheets

	December 31, 2003	December 31, 2002 (Restated, see note 13)
Assets:		
Current assets		
Cash and cash equivalents	$ 7,649,878	$ 21,628,517
Short-term investments	3,686,919	2,002,123
Prepaid expenses and other current assets	508,123	608,313
Total current assets	11,844,920	24,238,953
Property and equipment, net	1,891,726	2,616,193
Restricted cash	227,500	227,500
Intangible assets, net	256,688	275,204
Goodwill	1,009,973	921,418
Other assets	100,000	100,000
Total assets	$ 15,330,807	$ 28,379,268
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,908,057	$ 2,005,279
Accrued compensation and related expenses	111,989	122,925
Current portion of deferred revenue	832,000	833,340
Total current liabilities	2,852,046	2,961,544
Long term liabilities	724,560	716,619
Deferred revenue	13,334,660	14,166,660
Total liabilities	16,911,266	17,844,823
Commitments and contingencies (Note 4)		
Shareholders' equity (deficit):		
Preferred stock, no par value; 5,000,000 shares authorized: no shares issued or outstanding at December 31, 2003 and 2002	--	--
Common stock, no par value; 35,000,000 shares authorized: 20,045,000 shares issued and outstanding at December 31, 2003 and 19,652,356 shares issued and outstanding at December 31, 2002	97,293,984	96,139,764
Accumulated other comprehensive income	274,855	11,831
Deficit accumulated during the development stage	(99,149,298)	(85,617,150)
Total shareholders' equity (deficit)	(1,580,459)	10,534,445
Total liabilities and shareholders' equity (deficit)	$ 15,330,807	$ 28,379,268

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Operations

	Years ended December 31,			Period from June 26, 1989 through December 31,
	2003	2002 (Restated, see note 13)	2001	2003
Revenues:				
Licensing and contract revenue from affiliate	$ --	$ --	$ --	$ 1,145,373
Licensing, milestone, and development funding	833,340	--	--	2,384,748
Government grants	18,833	45,798	566	566,966
Product sales	768,325	1,355,828	876,925	5,870,737
Total revenues	1,620,498	1,401,626	877,491	9,967,824
Costs and expenses:				
Cost of products sold	185,891	369,992	200,338	1,506,765
Research and development	10,558,174	10,403,214	14,097,746	72,175,558
Selling, general and administrative	4,768,529	6,389,847	4,041,642	31,719,125
Acquired in-process research and development	--	--	3,507,134	7,350,102
Total costs and expenses	15,512,594	17,163,053	21,846,860	112,751,550
Operating loss	(13,892,096)	(15,761,427)	(20,969,369)	(102,783,726)
Other income (expense):				
Interest expense	--	(27,136)	(27,283)	(1,503,729)
Interest income and other, net	359,948	547,961	1,531,929	6,586,662
Net loss	(13,532,148)	(15,240,602)	(19,464,723)	(97,700,793)
Non-cash preferred dividends	--	--	--	1,448,505
Net loss applicable to common shareholders	$ (13,532,148)	$ (15,240,602)	$ (19,464,723)	$ (99,149,298)
Basic and diluted net loss per common share	$ (0.68)	$ (0.86)	$ (1.26)	
Weighted average common shares used in computing basic and diluted net loss per common share	19,963,552	17,642,640	15,502,918	

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Shareholders' Equity (Deficit)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Issuance of convertible preferred stock, net of issuance cost through December 31, 2000	27,649	$ 6,801,730	--	$ --	477,081	$ 4,978,505
Issuance of Series A convertible preferred stock and warrants to purchase 14,191 shares of Series A convertible preferred stock in exchange for convertible promissory notes and accrued interest through December 31, 2000	625,845	1,199,536	--	--	--	--
Issuance of convertible preferred stock for services rendered, and license agreement through December 31, 2000	50,110	173,198	--	--	--	--
Issuance of Series B convertible preferred stock in exchange for convertible promissory notes	--	--	12,750	114,000	--	--
Non-cash preferred dividends	--	1,448,505	--	--	--	--
Conversion of preferred stock, including dividends, to common stock through December 31, 2000	(703,604)	(9,622,969)	(12,750)	(114,000)	(477,081)	(4,978,505)
Issuance of warrants in connection with notes payable in financing	--	--	--	--	--	--
Issuance of common stock in connection with private placement of common stock in July 1997, net of issuance cost	--	--	--	--	--	--
Issuance of common stock in connection with the public offering of common stock in November 1997, net of issuance cost	--	--	--	--	--	--
Issuance of common stock in connection with the acquisition of Neptune Pharmaceutical	--	--	--	--	--	--
Issuance of common stock in connection with IPO in August 1995	--	--	--	--	--	--
Issuance of common stock for cash through December 31, 2000	--	--	--	--	--	--

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Issuance of convertible preferred stock, net of issuance cost through December 31, 2000	--	$ --	$ --	$ --	$ 11,780,235
Issuance of Series A convertible preferred stock and warrants to purchase 14,191 shares of Series A convertible preferred stock in exchange for convertible promissory notes and accrued interest through December 31, 2000	6	--	--	--	1,199,536
Issuance of convertible preferred stock for services rendered, and license agreement through December 31, 2000	--	--	--	--	173,198
Issuance of Series B convertible preferred stock in exchange for convertible promissory notes	--	--	--	--	114,000
Non-cash preferred dividends	--	--	--	(1,448,505)	--
Conversion of preferred stock, including dividends, to common stock through December 31, 2000	3,014,644	14,715,474	--	--	--
Issuance of warrants in connection with notes payable in financing	--	487,333	--	--	487,333
Issuance of common stock in connection with private placement of common stock in July 1997, net of issuance cost	1,547,827	3,814,741	--	--	3,814,741
Issuance of common stock in connection with the public offering of common stock in November 1997, net of issuance cost	2,012,500	13,764,069	--	--	13,764,069

Issuance of common stock in connection with the acquisition of Neptune Pharmaceutical	462,809	3,842,968	--	--	3,842,968
Issuance of common stock in connection with IPO in August 1995	1,322,500	6,383,785	--	--	6,383,785
Issuance of common stock for cash through December 31, 2000	953,400	126,499	--	--	126,499

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Shareholders' Equity (Deficit) (Continued)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Issuance of common stock for services rendered through December 31, 2000	--	--	--	--	--	--
Issuance of common stock in connection with the private placement of common stock in July 1999, net of issuance cost	--	--	--	--	--	--
Issuance of common stock in connection with the private placement of common stock in October 2000, net of issuance cost of $22,527	--	--	--	--	--	--
Repurchase of common shares in 1992	--	--	--	--	--	--
Issuance of common stock in exchange for notes payable	--	--	--	--	--	--
Compensation expense related to the extension of option exercise periods	--	--	--	--	--	--
Exercise of warrants to purchase common stock through December 31, 2000	--	--	--	--	--	--
Exercise of options to purchase common stock through December 31, 2000	--	--	--	--	--	--
Unrealized loss in investments through December 31, 2000	--	--	--	--	--	--
Fair value of warrants issued in Quay acquisition	--	--	--	--	--	--
Common stock issued in connection with Quay acquisition	--	--	--	--	--	--
Compensation expense related to warrants and options granted to non-employees	--	--	--	--	--	--
Foreign currency translation	--	--	--	--	--	--
Net loss for the period June 26, 1989 (inception) to December 31, 2000	--	--	--	--	--	--
Total Comprehensive Loss through December 31, 2000	--	--	--	--	--	--

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Issuance of common stock for services rendered through December 31, 2000	269,116	24,261	--	--	24,261
Issuance of common stock in connection with the private placement of common stock in July 1999, net of issuance cost	1,616,000	10,037,662	--	--	10,037,662
Issuance of common stock in connection with the private placement of common stock in October 2000, net of issuance cost of $22,527	1,500,000	11,602,473	--	--	11,602,473
Repurchase of common shares in 1992	(3,586)	(324)	--	--	(324)
Issuance of common stock in exchange for notes payable	42,960	268,500	--	--	268,500
Compensation expense related to the extension of option exercise periods	--	338,481	--	--	338,481
Exercise of warrants to purchase common stock through December 31, 2000	59,086	918,479	--	--	918,479
Exercise of options to purchase common stock through December 31, 2000	371,574	1,342,291	--	--	1,342,291
Unrealized loss in investments through December 31, 2000	--	--	(27,270)	--	(27,270)
Fair value of warrants issued in Quay acquisition	--	489,477	--	--	489,477
Common stock issued in connection with Quay acquisition	169,224	977,105	--	--	977,105
Compensation expense related to warrants and options granted to non-employees	--	601,748	--	--	601,748
Foreign currency translation	--	--	(1,537)	--	(1,537)
Net loss for the period June 26, 1989 (inception) to December 31, 2000	--	--	--	(49,463,320)	(49,463,320)

Total Comprehensive Loss through December 31, 2000	--	--	--	--	(49,492,127)

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Shareholders' Equity (Deficit) (Continued)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balances at December 31, 2000	--	--	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Exercise of warrants to purchase common stock	--	--	--	--	--	--
Compensation expense related to warrants and options granted to non-employees	--	--	--	--	--	--
Issuance of common stock in connection with the private placement of common stock in June 2001, net of issuance costs of $184,795	--	--	--	--	--	--
Common stock issued in connection with Vaxis acquisition	--	--	--	--	--	--
Issuance of common stock in connection with the achievement of Neptune milestones	--	--	--	--	--	--
Unrealized gain/(loss) on investments	--	--	--	--	--	--
Foreign currency translation	--	--	--	--	--	--
Net loss	--	--	--	--	--	--
Total Comprehensive Loss	--	--	--	--	--	--
Balances at December 31, 2001	--	--	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Issuance of common stock in connection with the private placement of common stock in November 2002, net of issuance costs of $275,000	--	--	--	--	--	--
Compensation expense related to stock option modifications (restated)	--	--	--	--	--	--
Compensation expense for options related to non-employees	--	--	--	--	--	--
Unrealized gain (loss) on investments	--	--	--	--	--	--
Foreign currency translation	--	--	--	--	--	--

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Balances at December 31, 2000	13,838,053	69,735,022	(28,807)	(50,911,825)	18,794,390
Exercise of options to purchase common stock	60,803	203,437	--	--	203,437
Exercise of warrants to purchase common stock	12,000	48,000	--	--	48,000
Compensation expense related to warrants and options granted to non-employees	--	349,515	--	--	349,515
Issuance of common stock in connection with the private placement of common stock in June 2001, net of issuance costs of $184,795	2,747,143	15,199,206	--	--	15,199,206
Common stock issued in connection with Vaxis acquisition	533,612	3,852,631	--	--	3,852,631
Issuance of common stock in connection with the achievement of Neptune milestones	104,113	750,000	--	--	750,000
Unrealized gain/(loss) on investments	--	--	130,655	--	130,655
Foreign currency translation	--	--	(18,390)	--	(18,390)
Net loss	--	--	--	(19,464,723)	(19,464,723)
Total Comprehensive Loss	--	--	--	--	(19,352,458)
Balances at December 31, 2001	17,295,724	90,137,811	83,458	(70,376,548)	19,844,721
Exercise of options to purchase common stock	156,632	454,983	--	--	454,983
Issuance of common stock in connection with the private placement of common stock in November 2002, net of issuance costs of $275,000	2,200,000	5,225,000	--	--	5,225,000
Compensation expense related to stock option modifications (restated)	--	249,746	--	--	249,746
Compensation expense for options related to non-employees	--	72,224	--	--	72,224
Unrealized gain (loss) on investments	--	--	(82,916)	--	(82,916)

Foreign currency translation	--	--	11,289	--	11,289

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated 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
Net loss (restated)	--	--	--	--	--	--	--	--
Total Comprehensive Loss (restated)	--	--	--	--	--	--	--	--
Balances at December 31, 2002 (restated)	--	--	--	--	--	--	19,652,356	96,139,764
Exercise of options to purchase common stock	--	--	--	--	--	--	273,196	537,700
Compensation expense for options related to non-employees	--	--	--	--	--	--	--	153,784
Issuance of shares to CEO upon renewal of employment contract	--	--	--	--	--	--	107,118	425,000
Issuance of common stock for services	--	--	--	--	--	--	12,330	50,000
Financing fees	--	--	--	--	--	--	--	(12,264)
Changes in unrealized gain (loss) on investments	--	--	--	--	--	--	--	--
Gain on foreign currency translation	--	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
Total Comprehensive Loss	--	--	--	--	--	--	--	--
Balances December 31, 2003	--	$ --	--	$ --	--	$ --	20,045,000	$ 97,293,984

	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Net loss (restated)	--	(15,240,602)	(15,240,602)
Total Comprehensive Loss (restated)	--	--	(15,312,229)
Balances at December 31, 2002 (restated)	11,831	(85,617,150)	10,534,445
Exercise of options to purchase common stock	--	--	537,700
Compensation expense for options related to non-employees	--	--	153,784
Issuance of shares to CEO upon renewal of employment contract	--	--	425,000
Issuance of common stock for sevices	--	--	50,000
Financing fees	--	--	(12,264)
Changes in unrealized gain (loss) on investments	(424)	--	(424)
Gain on foreign currency translation	263,448	--	263,448
Net loss	--	(13,532,148)	(13,532,148)
Total Comprehensive Loss	--	--	(13,259,611)
Balances December 31, 2003	$ 274,855	$(99,149,298)	$ (1,580,459)

See accompanying notes

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Cash Flows

	Years ended December 31,			Period from June 26, 1989 (inception) through December 31,
	2003	2002 (Restated, see note 13)	2001	2003
Operating activities				
Net loss	$(13,532,148)	$(15,240,602)	$(19,464,723)	$(97,700,793)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Acquired in-process technology	--	--	3,507,134	7,350,102
Depreciation and amortization	369,590	484,028	530,643	2,598,706
Intangible assets amortization	193,409	325,644	359,673	1,177,077
Loss (gain) on disposal of fixed assets	666,875	(86,476)	--	580,399
Non-cash equity compensation expense	578,784	321,970	349,516	2,190,499
Amortization of discount on notes payable and deferred financing costs	--	--	--	24,261
Issuance of common stock for services	50,000	--	--	1,040,918
Issuance of common stock for services rendered, interest, and Neptune milestones	--	--	750,000	567,503
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	100,190	229,032	18,732	(608,122)
Other assets	--	250,000	--	250,000
Accounts payable and accrued liabilities	(90,621)	112,026	450,023	1,914,658
Other long term liabilities	--	231,793	484,826	716,619
Deferred revenue	(832,000)	15,000,000	--	14,168,000
Accrued compensation and related expenses	(10,936)	(21,689)	5,541	111,989
Net cash provided by (used in) operating activities	(12,506,857)	1,605,726	(13,008,635)	(65,618,184)
Investing activities				
Purchases of property and equipment	(362,335)	(733,175)	(150,530)	(5,199,755)
Purchases of investments	(11,019,220)	--	(16,789,905)	(98,909,574)
Sales of investments	5,334,000	6,706,769	7,500,000	43,509,646
Maturities of investments	4,000,000	2,000,000	4,980,239	51,617,759
Proceeds from sale of property and equipment	50,337	187,337	--	237,674
Acquisition of Vaxis and Quay	--	--	(142,556)	(511,556)
Net cash provided by (used in) investing activities	(1,997,218)	8,160,931	(4,602,752)	(9,255,806)
Financing activities				
Proceeds from notes payable	--	--	--	8,047,424
Proceeds from restricted cash	--	386,499	--	386,499
Repayment of notes payable	--	--	(882,070)	(6,610,608)
Net proceeds from issuance of common stock	525,436	5,679,983	15,450,643	69,636,987
Other assets	--	--	--	(613,999)
Issuance of convertible preferred stock, net of issuance costs	--	--	--	11,757,735
Deferred financing costs	--	--	--	(80,170)
Net cash provided by financing activities	525,436	6,066,482	14,568,573	82,523,868
Net increase (decrease) in cash and cash equivalents	(13,978,639)	15,833,139	(3,042,814)	7,649,878
Cash and cash equivalents, beginning of period	21,628,517	5,795,378	8,838,192	--
Cash and cash equivalents, end of period	$ 7,649,878	$ 21,628,517	$ 5,795,378	$ 7,649,878

See accompanying notes

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Cash Flows (Continued)

	2003	2002 (Restated, see note 13)	2001	Period from June 26, 1989 (inception) through December 31, 2003
Supplemental cash flow information				
Interest paid	$ --	$ 27,136	$ 27,281	$ 639,987
Supplemental disclosure of non-cash transactions:				
Issuance of common stock in connection with acquired-in-process technology	$ --	$ --	$ 3,507,134	$ 7,350,102
Conversion of preferred stock to common stock	$ --	$ --	$ --	$14,715,474
Issuance of common stock for notes payable	$ --	$ --	$ --	$ 277,250
Issuance of warrants in connection with notes payable financing	$ --	$ --	$ --	$ 487,333
Issuance of convertible preferred stock for notes payable	$ --	$ --	$ --	$ 1,268,316
Issuance of common stock for milestone payments	$ --	$ --	$ 750,000	$ 750,000

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Notes to Consolidated Financial Statements

1. Accounting Policies

Description of Business and Principles of Consolidation

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

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

Liquidity and Capital Resources

At December 31, 2003, the Company had a deficit accumulated during the development stage of $99.1 million. The Company expects negative cash flow from operations to continue for at least the next two years, with the need to continue or expand their development programs and to commercialize products once regulatory approvals have been obtained. Management believes that its existing cash balances will be sufficient to meet the Company's capital and operating requirements through December 31, 2004.

However, expenditures required to achieve the Company's growth and profitability in the long term may be greater than projected or the cash flow generated from operations may be less than projected. As a result, the Company's long-term capital needs may require the Company to seek to obtain additional funds through equity or debt financing, collaborative or other arrangements with other companies, bank financing and other sources. There can be no assurance that the Company will be able to obtain additional debt or equity financing on terms acceptable to the Company, or at all. If adequate funds are not available, the Company could be required to delay development or commercialization of certain products, to license to third parties the rights to commercialize certain products that the Company would otherwise seek to commercialize internally, or to reduce resources devoted to product development. Accordingly, the failure of the Company to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company's ability to achieve its longer term business objectives.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition and Research and Development Expenses

Revenues related to cost reimbursement provisions under development contracts are recognized as the costs associated with the projects are incurred. Revenues related to substantive and at risk non-refundable milestone payments specified under development contracts are recognized as the milestones are achieved. The Company may receive certain United States government grants that support the Company's research effort in defined research projects. These grants generally provide for reimbursement of approved costs incurred as defined in the various grants. Revenues associated with these grants are recognized as costs under each grant are incurred. Revenues related to product sales are recognized upon shipment when title to goods and risk of loss have been transferred to the customer. There is no right of return for sales of our skin care products.

Research and development costs are expensed as incurred. The type of costs included in research and development expenses are salaries and benefits, laboratory supplies, external research programs, clinical studies, consulting and other expenses associated with regulatory filings and internally allocated costs such as rent, supplies and utilities.

Clinical trial expenses are payable to clinical sites and clinical research organizations. Expenses for both of these groups are accrued based on actual activity and on such factors as the number of subjects enrolled and number of subjects that have completed certain treatment phases for each trial.

Cash, Cash Equivalents and Investments

Cash equivalents consist of highly liquid financial instruments with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair value at December 31, 2003 and 2002. The Company considers all its investments as available-for-sale and reports these investments at estimated fair market value using available market information. Unrealized gains or losses on available-for-sale securities are included in shareholders' equity (deficit) as other comprehensive income (loss) until their disposition. The cost of securities sold is based on the specific identification method. Realized gains or losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest income and

other, net.

The Company is subject to credit risk from its portfolio of marketable securities. By policy, the Company invests only in highly rated, liquid securities and restricts amounts invested in such securities by investment type and by issuer, except for securities issued by the United States government.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets.

	Useful Life
Furniture and Fixtures	3 years
Office Equipment	3 years
Laboratory Equipment	5 years

Amortization for leasehold improvements is taken over the shorter of the estimated useful life of the asset or the remaining lease term. Upon sale or retirement, the assets' cost and related accumulated depreciation are removed from the accounts and only related gain or loss is reflected in operations.

Goodwill and Other Intangible Assets

Goodwill that is related to the purchase of Quay Pharmaceuticals in June 2000, represents the excess purchase price over the fair value of net assets acquired and was being amortized over 10 years using the straight-line method. The carrying value of goodwill is based on management's current assessment of recoverability using objective and subjective factors. Effective January 1, 2002, the Company no longer amortizes the remaining balance of goodwill. The Company performed impairment tests of goodwill upon transition to Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", and no impairment was identified at that time or in conjunction with the annual impairment test for fiscal years 2002 and 2003. The Company will continue to evaluate goodwill for impairment on an annual basis each year and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. An impairment loss, if needed, would be recognized based on the difference between the carrying value of the asset and its estimated fair value, which would be determined based on either discounted cash flows or other appropriate fair value methods.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful lives and reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company currently amortizes intangible assets on a straight-line basis over their estimated useful lives of five years. Amortization recorded to date as of December 31, 2003 was approximately $1,177,000.

Reclassification

Certain prior year balances have been reclassified to conform to current year presentation.

Foreign Currency Translation

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

Comprehensive Income (Loss)

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

Stock-Based Compensation

The Company accounts for its stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations. The Company has elected to follow the disclosure-only alternative prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure". Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Compensation for options granted to non-employees has been determined in accordance with SFAS No. 123 and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services," at the fair value of the equity instruments issued.

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

Pro forma information regarding net loss and net loss per common share is required by SFAS No. 123, which requires that the information be determined as if the Company has accounted for its common stock options granted under the fair market value method. The fair market value of options granted has been estimated at the date of the grant using a Black-Scholes option pricing model.

Had compensation cost for the Company's stock-based compensation plans been determined in a manner consistent with the fair value approach described in SFAS No. 123, the Company's pro forma net loss and net loss per share as reported would have been increased to the pro forma amounts indicated below:

	Year ended December 31,		
	2003	2002 (Restated, see note 13)	2001
Net loss as reported	$(13,532,148)	$(15,240,602)	$(19,464,723)
Add: Stock-based employee compensation costs included in reported net loss	425,000	249,746	--
Deduct: Stock-based employee compensation costs determined under the fair value based method for all awards	(1,839,447)	(2,227,933)	(2,687,751)
Net loss, pro forma	$(14,946,595)	$(17,218,789)	$(22,152,474)
Basic and diluted net loss per share, as reported	$ (0.68)	$ (0.86)	$ (1.26)
Basic and diluted net loss per share, pro forma	$ (0.75)	$ (0.98)	$ (1.43)

The Company valued its options on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

	Year ended December 31,		
	2003	2002	2001
Risk-free interest rate	2.9%	2.5%	3.5%
Dividend yield	0%	0%	0%
Volatility	0.98	1.06	0.60
Expected life of options in years	4.3	4.3	4.3

The weighted average per share grant date fair value of options granted during the years ended December 31, 2003, 2002, and 2001 was $3.28, $3.80 and $5.33, respectively.

Recent Accounting Pronouncements

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. During December 2003, the FASB issued FIN 46R, a revision to FIN 46. FIN 46R provides a broad deferral of the latest date by which all public entities must apply FIN 46 to certain variable interest entities, to the first reporting period ending after March 15, 2004. The Company does not expect the adoption of FIN 46 to have a material impact on its financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability or an asset in some circumstances. Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. While the effective date of certain elements of SFAS No. 150 has been deferred, the Company does not expect the adoption of SFAS No. 150 to have a material impact on its financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin ("SAB") No.

104, "Revenue Recognition," which codifies, revises and rescinds certain sections of SAB No. 101, "Revenue Recognition," in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material effect on the Company's financial position or results of operations.

Basic and Diluted Net Loss per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share incorporates the incremental shares issued upon the assumed exercise of stock options and warrants, when dilutive. There is no difference between basic and diluted net loss per common share, as presented in the statement of operations, because all options and warrants are anti-dilutive. The total number of shares excluded was 6,426,899, 1,864,551, and 5,041,375 for the years ended December 31, 2003, 2002 and 2001, respectively.

2. Investments

At December 31, 2003 and 2002, investments consist of the following:

	2003			2002		
	Cost	Gross Unrealized Gains	Fair Value	Cost	Gross Unrealized Gains	Fair Value
Corporate notes	$3,686,800	$ 119	$3,686,919	$2,001,580	$ 543	$2,002,123

The Company's investments in corporate notes of $1,433,000 and $2,253,000 will mature in April and July, 2004, respectively.

3. Property and Equipment, net

Property and equipment, net consist of the following:

	December 31, 2003	2002
Furniture and fixtures	$ 185,815	$ 184,305
Office equipment	238,550	238,822
Laboratory equipment	874,753	978,485
Leasehold improvements	2,063,636	2,919,390
	3,362,754	4,321,002
Less: accumulated depreciation and amortization	(1,471,028)	(1,704,809)
	$ 1,891,726	$ 2,616,193

4. Lease Commitments and Contingencies

The Company leases its facilities and certain equipment under non-cancelable operating leases. Rent expense is recorded on a straight-line basis over the term of the lease. During the third quarter of 2002, the Company subleased a portion of its facility. Rental income is recorded on a straight-line basis over the term of the sublease. Future minimum lease payments, net of future minimum sublease income at December 31, 2003, are as follows:

Years ending December 31,	Lease Commitments	Sublease Income	Future Minimum Lease Commitments
2004	$1,337,194	$(1,176,166)	$161,028
2005	1,377,005	(1,211,451)	165,554
2006	1,414,747	(1,247,795)	166,952
2007	1,432,716	(1,285,228)	147,488
2008	1,475,700	(1,099,341)	376,359
	$7,037,362	$(6,019,981)	$1,017,381

Rent expense, net of sublease income, was $335,661, $891,620 and $1,653,337 for the years ended December 31, 2003, 2002, and 2001, respectively. The Company received $148,000, $405,000 and $897,000 in sublease income, which is reflected in other income (expense), during the year ended December 31, 2003, 2002 and 2001, respectively.

Restricted cash at December 31, 2003 and 2002 was $227,500 and represents amounts that secure a letter of credit related to the Company's leases.

Litigation

In December 2002, Cellegy entered into an exclusive license agreement with PDI, Inc. ("PDI") to commercialize Fortigel in North American markets. Under the terms of the agreement, PDI's Pharmaceutical Products Group is responsible for the marketing and sale of Fortigel, if approved, utilizing its existing sales and marketing infrastructure. Cellegy received a payment of $15.0 million upon

signing the agreement and is entitled to receive a milestone payment on FDA approval and royalties following a successful product launch. Cellegy is responsible for supplying finished product to PDI through Cellegy's contract manufacturer. In July 2003, the FDA issued a Not Approvable letter for our Fortigel NDA. In October 2003, Cellegy announced that it received a mediation notice from PDI. The dispute resolution provisions of the license agreement require non-binding mediation before either party may initiate further legal proceedings.

The communication asserted several claims relating to the agreement, including Cellegy's breach of several provisions of the agreement and failure to disclose relevant facts, and PDI claimed several kinds of alleged damages, including return of the initial license fee that PDI paid to Cellegy when the agreement was signed. The parties subsequently conducted mediation as contemplated by the agreement but did not reach any resolution of the claims.

In December 2003, Cellegy and PDI both initiated legal proceedings against each other relating to the agreement. Cellegy filed a declaratory judgment action in federal district court in San Francisco against PDI, and PDI initiated an action in federal district court in New York against Cellegy. In its action, Cellegy seeks, among other things, a declaration that it has fully complied with the license agreement and that PDI's claims are without merit. There can be no assurances regarding the outcome of either proceeding. The Company could be required to devote significant time and resources to the proceedings, and an adverse outcome could have a material adverse impact on our business and financial position. Such potential loss is not estimatable at this time.

5. 401(k) Plan

The Company maintains a savings and retirement plan under Section 401(k) of the Internal Revenue Code. All employees are eligible to participate on their first day of employment with the Company. Under the plan, employees may contribute up to 15% of salaries per year subject to statutory limits. The Company provides a matching contribution equal to 25% of the employee's rate of contribution, up to a maximum contribution rate of 4% of the employee's annual salary. Expenses related to the plan for the years ended December 31, 2003, 2002 and 2001 were not significant.

6. Restructuring

On July 23, 2002 and December 13, 2002 the Board of Directors formally adopted reduction in force programs affecting primarily research and marketing functions. The reductions resulted in a decrease of nine and five employees, respectively. During the third and fourth quarters of 2002, the Company recorded severance and other related charges of $210,000 and $143,000, respectively. In the fourth quarter of 2002, the Company recorded a stock based compensation charge of $250,000 related to the extension of the exercise period of certain options held by terminated employees. All these amounts were paid and there is no remaining accrual balance as of December 31, 2003.

7. Acquisitions, Licenses and Other Agreements

Acquisitions

In December 1997, the Company acquired patent and related intellectual property rights relating to Cellegesic (the "Agreement"), a topical product candidate for the treatment of anal fissures and hemorrhoids from Neptune Pharmaceuticals Corporation ("Neptune"). Under the terms of the Agreement, the Company issued 429,752 shares of common stock to Neptune on December 31, 1997. Upon the signing of a letter of intent on November 3, 1997, the Company issued 33,057 shares of common stock to Neptune. The Agreement calls for a series of additional payments, payable in shares of common stock, upon successful completion of various development milestones. Upon completion of milestones in 2001, the Company issued 104,113 shares of common stock valued at $750,000 which has been recorded to research and development expenses. The remaining milestones, if achieved, would become payable over the next several years. Depending on several factors, including the market price of the common stock, such payments, which are fixed based on the Agreement, could result in the issuance of a significant number of shares of common stock or cash. Future potential milestones, if all paid in Cellegy common stock could result in the issuance of up to an additional 1,285,000 shares of Cellegy common stock based on the closing price of Cellegy stock at time of issuance. The Agreement does not provide for the payment by the Company of any future product royalties in connection with sales of Cellegesic.

In June 2000, Cellegy acquired all assets of Quay Pharmaceuticals Pty Ltd ("Quay"), an Australian pharmaceutical company producing Rectogesic, a drug similar to Cellegesic. The acquired assets consisted of Quay's inventory, purchased at Quay's cost at the time of acquisition, other tangible assets and purchased technology. The aggregate purchase price of $1,835,000 included the aggregate value of the 169,224 shares of Cellegy common stock issued to Quay with a value of $977,000, warrants to purchase 171,146 shares of common stock with a fair value of $489,000 and cash payments of $369,000. The purchase price was allocated to the net tangible assets of $97,000, purchased technology of $770,000, and goodwill of $968,000, based on their estimated fair values on the acquisition date. Previously, purchased technology and goodwill was amortized over three and ten years, respectively. Following the adoption of SFAS No. 142, the

goodwill was no longer amortized as of January 1, 2002. This transaction has been accounted for by the purchase method of accounting and accordingly, the approximated purchase price, has been allocated to the net assets acquired and the liabilities assumed based on the estimated fair values at the date of acquisition, with the excess of the purchase price over assigned asset values recorded as goodwill. The results of operating the acquired company have been included in the Company's consolidated financial statements since the acquisition date.

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

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

Accumulated amortization of the Vaxis intangible assets at December 31, 2003 was $144,000. The expected amortization expense for Vaxis for the next three years will be approximately $82,217 per year. Amortization for Quay was fully recognized in May 2003.

Other Agreements

In August 2001, Cellegy announced a comprehensive agreement with Ventiv Health, Inc. ("Ventiv"), a contract sales organization. Ventiv was to provide certain sales and marketing services relating to the anticipated launch of Cellegesic. In September 2002, Cellegy and Ventiv terminated the Cellegesic License Agreement based on the delay in commercialization of Cellegesic due to the withdrawal of the NDA and the subsequent decision to conduct another Phase 3 clinical trial.

In December 2002, Cellegy entered into a license agreement with PDI, Inc. ("PDI") granting PDI the exclusive right to store, promote, sell and distribute Fortigel, one of the Company's products awaiting FDA approval, in North American markets. Cellegy received an upfront payment of $15.0 million on the effective date of December 31, 2002 with an additional of $10.0 million payable no later than thirty days after the Company certifies to PDI that Fortigel has received all FDA approvals required to manufacture, sell and distribute the product in the United States. The Company recorded costs of $947,000 to selling, general and administrative expenses for the year ended December 31, 2002 related to this agreement. If the $10.0 million payment is received, the Company will incur additional financing costs of $600,000 payable to an investment bank. Under the PDI agreement, the Company would also receive royalties each year until the expiration of the last patent right related to Fortigel of 20% - 30% of net sales and the Company would be reimbursed for 110% of burdened costs for any product supplied to PDI. The $15.0 million upfront payment was initially included as deferred revenue as of December 31, 2002 and is being recognized as revenue over the 18 year term of the agreement. As of December 31, 2003, total remaining deferred revenue of $14.2 million relates to this payment.

In October 2003, Cellegy received mediation notice from PDI. In December 2003, Cellegy and PDI initiated legal proceedings against each other. See also Note 4: "Litigation".

8. Shareholders' Equity (Deficit)

Common Stock Private Placements

In October 2000, the Company completed a private placement of 1.5 million shares of common stock at a price of $7.75 per share to a group of institutional investors. Net proceeds were $11,602,473.

In June 2001, the Company completed a private placement of approximately 2.7 million shares of common stock at a price of $5.60 per share. Participants included two existing investors, as well as five new investors. Net proceeds were $15,199,206.

In November 2002, the Company completed a private placement of approximately 2.2 million shares of common stock at a price of $2.50 per share to a single investor, John M. Gregory, founder and former CEO of King Pharmaceuticals and currently managing partner of SJ Strategic Investments LLC. Net proceeds were $5,225,000.

Preferred Stock

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

Stock Option Plans

The Company has two stock option plans that were approved by the Board and the shareholders of the Company in 1995: the 1995 Equity Incentive Plan (the "Plan") and the 1995 Directors' Stock Option Plan (the "Directors' Plan"). Both plans are administered by the Board. Subject to the overall supervision of the Board, the Board has designated the Compensation Committee as the administrator of both plans.

The Plan provides for the grant of options and other awards to employees, directors and consultants. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options may be granted only to employees. The Compensation Committee determines who will receive options or other awards under the Plan and their terms, including the exercise price, number of shares subject to the option or award, and the vesting and exercisability thereof. Options granted under the Plan generally have a term of ten years from the grant date, and exercise price typically is equal to the closing price of the common stock on the grant date. Options typically vest over a three-year or four-year period. Options granted under the Plan typically expire if not exercised within 90 days (or such other period not to exceed five years) from the date on which the optionee is no longer an employee, director or consultant. The vesting and exercisability of options may also be accelerated upon certain change of control events.

Equity Incentive Plan

When the Plan was established in 1995, the Company reserved 700,000 shares for issuance. From 1996 to 2003, a total of 4,150,000 additional shares were reserved for issuance under the Plan.

Activity under the Plan is summarized as follows:

	Shares Under Option	Weighted Average Exercise Price
Balance at January 1, 2001	2,150,641	$5.00
Granted	476,000	$7.96
Canceled	(123,634)	$5.71
Exercised	(60,803)	$3.35
Balance at December 31, 2001	2,442,204	$5.59
Granted	1,898,789	$3.84
Canceled	(221,869)	$5.97
Exercised	(156,632)	$2.90
Balance at December 31, 2002	3,962,492	$4.83
Granted	363,500	$3.05
Canceled	(1,123,080)	$5.11
Exercised	(273,196)	$1.97
Balance at December 31, 2003	2,929,716	$4.77

At December 31, 2003, options to purchase 2,173,078 shares of common stock were vested and exercisable at exercise prices ranging from $1.80 to $15.00 per share. At December 31, 2002 and 2001, options to purchase 2,362,446 and 1,576,834 shares of common stock were vested and exercisable, respectively. At December 31, 2003, 882,850 shares of common stock were available for future option grants under the Plan.

The following table summarizes information about stock options outstanding and exercisable related to the Plan at December 31, 2003:

	Options Outstanding			Options Vested	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$1.80 - $3.90	1,538,836	7.5 years	$2.78	1,073,404	$2.87
$4.00 - $6.50	691,180	4.2 years	$5.18	626,608	$5.18
$7.00 - $15.00	699,700	6.1 years	$8.75	473,066	$8.55
Total	2,929,716	6.4 years	$4.77	2,173,078	$4.77

Director's Stock Option Plan

In 1995, Cellegy adopted the 1995 Directors' Stock Option Plan (the "Directors' Plan") to provide for the issuance of non-qualified stock options to eligible outside Directors. When the plan was established, Cellegy reserved 150,000 shares for issuance. From 1996 to 2003, a total of 350,000 shares were reserved for issuance under the Directors' Plan.

The Directors' Plan provides for the grant of initial and annual non-qualified stock options to non-employee directors. Initial options vest over a four year period and subsequent annual options vest over three years. The exercise price of options granted under the Directors' Plan is the fair market value of the common stock on the grant date. Options generally expire 10 years from the grant date, and generally expire within 90 days of the date the optionee is no longer a director. The vesting and exercisability of options may also be accelerated upon certain change of control events.

Activity under the Directors' Plan is summarized as follows:

	Shares Under Option	Weighted Average Exercise Price
Balance at January 1, 2001	182,500	$5.01
Granted	46,000	$5.85
Balance at December 31, 2001	228,500	$7.26
Granted	64,000	$2.56
Balance at December 31, 2002	292,500	$4.61
Granted	60,000	$5.00
Canceled	(84,000)	$4.41
Balance at December 31, 2003	268,500	$4.75

At December 31, 2003, options to purchase 251,167 shares of common stock were vested and exercisable at exercise prices ranging from $2.56 to $8.50 per share. At December 31, 2003, options to purchase 60,833 shares of common stock were available for future option grants under the Directors' Plan.

The following table summarizes information about stock options outstanding and exercisable related to the Directors' Plan at December 31, 2003:

	Options Outstanding			Options Vested	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$2.56 - $3.25	44,000	8.0 years	$2.62	38,667	$2.63
$4.50 - $5.50	206,500	6.1 years	$5.04	194,500	$5.04
$6.50 - $8.50	18,000	6.9 years	$6.72	18,000	$6.72
Total	268,500	6.4 years	$4.75	251,167	$4.79

In November 2003, the Company granted an initial stock option to Mr. Richard Williams, on his appointment to become Chairman of the Board, to purchase 1,000,000 shares of common stock. 400,000 of the options have an exercise price equal to $2.89 per share, the closing price of the stock on the grant date and 600,000 of the options have an exercise price of $5.00 per share. The option is vested and exercisable in full on the grant date, although a portion of the option, covering up to 600,000 shares initially and declining over time, is subject to cancellation if they have not been exercised, in the event that Mr. Williams voluntarily resigns as Chairman and a director within certain future time periods.

Shares reserved

As of December 31, 2003, the Company has reserved shares of common stock for future issuance as follows:

Equity Plan	3,812,566
Directors' Plan	329,333
Chairman Options	1,000,000
Neptune Agreement	1,285,000
Total	6,426,899

Non-cash Compensation Expense Related to Stock Options

For the year ended December 31, 2003, the Company recorded non-cash stock compensation expense of $579,000 associated primarily with the modification of certain stock options and the renewal of employment contract of the CEO paid in stock. For the year ended December 31, 2002, the Company recorded non-cash compensation expense of $322,000.

9. Income Taxes

At December 31, 2003 the Company had net operating loss carryforwards of approximately $70,715,000 and $ 15,817,000 for federal and state purposes, respectively. The federal net operating loss carryforwards expire between the years 2004 and 2023. The state net operating loss carryforwards expire between the years 2004 and 2023. The state net operating loss carryforwards expire between the years 2004 and 2013. At December 31, 2003, the Company also had research and development credit carryforwards of approximately $1,757,000 and $995,000 for federal and state purposes, respectively. The federal credits expire between the years 2006 and 2023 and 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 (in thousands):

	December 31,	
	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	$ 25,000	$ 19,300
Deferred revenue	5,600	6,000
Credit carryforwards1	2,400	1,600
Capitalized intangibles	2,100	1,900
Other, net	20	--
Depreciation and amortization	1,120	800
Total deferred tax assets	36,240	29,600
Valuation allowance	(36,240)	(29,600)
Net deferred tax assets	$ --	$ --

	2003	
	$	%
Net loss	($13,532)	
Tax at Federal statutory rate	(4,601)	34.00%
State, net of Federal benefit	(832)	6.15%
Meals and entertainment	9	-0.07%
Stock compensation expense	46	-0.34%
Foreign rate differential	85	-0.63%
Research credits	(542)	4.00%
Deferred taxes not benefited	5,968	-44.10%
True up	(134)	0.99%
Provision for taxes	$ --	$ --

The valuation allowance for deferred tax assets for 2003, 2002, and 2001 increased by approximately $6,640,000, $5,400,000, and $5,700,000, respectively.

10. Segment Reporting

The Company has two business segments: pharmaceuticals and skin care. Pharmaceuticals include primarily research and clinical development expenses for potential prescription products to be marketed directly by Cellegy or through corporate partners.

Current pharmaceutical revenues consist primarily of Rectogesic sales in Australia and South Korea, in addition to the PDI license revenue for Fortigel. The Company expects to complete other corporate collaborations in the future for a number of its potential pharmaceutical products, which may result in milestones, development funding and royalties on sales.

Cellegy expects to generate future revenues on potential products it intends to self-market. The skin care business segment includes development expenses for non-prescription moisturizer and anti-aging products. During 2001, Cellegy incurred development expenses for its skin care products. No development expenses were incurred in 2003 and 2002. The Company's product sales are to one customer, Gryphon Development, Inc., which is selling one of the Company's skin care products, exclusively in the United States, through a major specialty retailer.

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

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

The following table contains information regarding revenues and operating income (loss) of each business segment for the years ended December 31, 2003, 2002, and 2001:

	Years ended December 31,		
	2003	2002	2001
		(Restated, see note 13)	
Revenues:			
Pharmaceuticals	$ 1,304,498	$ 320,339	$ 217,439
Skin care	316,000	1,081,287	660,052
	$ 1,620,498	$ 1,401,626	$ 877,491
Operating income (loss):			
Pharmaceuticals	$(14,039,351)	$(16,462,264)	$(21,021,796)
Skin care	147,255	700,837	52,427
	$(13,892,096)	$(15,761,427)	$(20,969,369)

Total assets were minimal for the skin care segment.

Revenue from Major Customer

Revenues from product sales to one customer represented approximately 20%, 70% and 75% of total revenue for 2003, 2002 and 2001, respectively.

Geographic data

Approximately 28%, 20% and 25% of total revenues in 2003, 2002 and 2001, respectively, are from sales of Rectogesic in Australia and South Korea. All other sales are in the United States. Most of the Company's assets are located in the United States.

11. Related Party Transactions

The Company has paid fees to their board members for their services on the board, audit committee and compensation committee. The total fees paid to these directors during 2003, 2002 and 2001 were $103,000, $10,000 and $30,000, respectively. Cash compensation paid to the Chairman of the Board in 2003 was $15,300.

There were no consulting fees paid in cash to any board members in 2003 and 2002. For 2001, consulting fees of $80,000 were paid in cash to two board members based on consulting agreements. In addition, the Company recognized $131,000 and $33,000 in non-cash compensation expense during 2003 and 2002, respectively, associated with the valuation of vested stock options that were previously issued under a consulting agreement to a former board member.

Cellegy had an interest bearing $100,000 loan outstanding to a non-officer employee, which was issued in 1999 in conjunction with the purchase of his home. This loan had an interest rate of 5% and repayment was due at the end of the 15 year term of the loan or sooner. The loan was paid in full in April 2004.

12. Subsequent Events

In January 2004, Cellegy entered into a Structured Secondary Offering ("SSO") facility agreement with Kingsbridge Capital Limited. The facility requires Kingsbridge to purchase up to 3.74 million shares of newly issued common stock at times and in amounts selected by Cellegy over a period of up to two years, subject to certain restrictions. Cellegy may begin to draw down funds after the effectiveness of a registration statement that the Company intends to file with the Securities and Exchange Commission. The dollar amount of stock that Cellegy may require Kingsbridge to purchase will depend in part on the market price of the common stock at the time that the registration statement is filed and that shares are sold. The agreement does not prohibit Cellegy from conducting additional debt or equity financings, including PIPEs, shelf offerings, secondary offerings or any other non-fixed or future priced securities. The timing and amount of any draw downs are at Cellegy's sole discretion, subject to certain timing conditions, and are limited to certain maximum amounts depending in part on the then current market capitalization of the Company. Kingsbridge is not obligated to purchase shares at market prices below $1.25 per share. The purchase price of the common stock will be at discounts ranging from 8% to 12% of the average market price of the common stock prior to each future draw down. The lower discount applies to higher stock prices. In connection with the agreement, Cellegy issued warrants to Kingsbridge to purchase 260,000 common shares at an exercise price of $5.27 per share. Cellegy can, at its discretion and based on its cash needs, determine how much, if any, of the equity line it will draw down in the future, subject to the other conditions in the agreement.

13. Restatement

In the course of preparing its financial statements for the year ended December 31, 2003, the Company determined that it was necessary to adjust the

accounting treatment for certain employee and director stock options that had been cancelled during the fourth quarter of 2002. The Company initially accounted for the cancellation of certain unvested options as a modification to the stock options and applied variable accounting treatment to the uncancelled portion of the stock options. Subsequently, the Company determined that was not the appropriate application under generally accepted accounting principles, and reversed the $695,000 of expense previously recorded in the fourth quarter of 2002. Cellegy has filed an amended annual report on Form 10-K/A for 2002 and amended quarterly reports on Form 10-Q/A for each of the first three quarters of 2003.

A summary of the effect of this adjustment on the 2002 financial statements is as follows: in the statement of operations, research and development expense, selling, general and administrative expense and the net loss were reduced by $269,000, $426,000 and $695,000, respectively; on the consolidated balance sheet, common stock and the accumulated deficit were both reduced by $695,000.

CELLEGY PHARMACEUTICALS, INC.
CERTIFICATE OF AMENDMENT OF
AMENDED AND RESTATED ARTICLES OF INCORPORATION

K. Michael Forrest and A. Richard Juelis certify that:

1. They are the Chief Executive Officer and the Secretary, respectively, of Cellegy Pharmaceuticals, Inc., a California corporation.

2. Article III of the Amended and Restated Articles of Incorporation of the corporation is amended to read in its entirety as follows:

ARTICLE III

The Corporation is authorized to issue two classes of stock which shall be designated common stock and preferred stock. The total number of shares of common stock that the Corporation is authorized to issue is 35,000,000, and the total number of shares of preferred stock that the Corporation is authorized to issue is 5,000,000. The Corporation may issue preferred stock from time to time in one or more series. The Board of Directors is hereby authorized, within the limitations and restrictions stated in these Articles, to fix the number of shares of any series of preferred stock and to determine the designation of any such series and to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of preferred stock and, within the limits and restrictions stated in any resolution of the Corporation's Board of Directors originally fixing the number of shares constituting any series, to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any series of preferred stock subsequent to the issuance of shares of that series.

3. The foregoing amendment to the Amended and Restated Articles of Incorporation has been duly approved by a majority of the Board of Directors of the corporation.

4. The amendment to the Amended and Restated Articles of Incorporation has been duly approved by the required vote of the shareholders of the corporation in accordance with Section 902 of the California Corporations Code. The only class or series of outstanding shares is Common Stock, and the total number of outstanding shares of Common Stock of the Corporation as of the record date for voting on the foregoing amendment was 17,304,976 shares. No shares of Series A Preferred Stock are outstanding. The number of shares voting in favor of the amendment equaled or exceeded the number required. The percentage vote required was more than 50% of the shares of Common Stock.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: July 30, 2002

/s/ K. Michael Forrest

K. Michael Forrest
Chief Executive Officer

/s/ A. Richard Juelis

A. Richard Juelis
Secretary

May 15, 2003

K. Michael Forrest
18 Farm Lane
Hillsborough, CA 94010

Re: Your Employment With Cellegy Pharmaceuticals, Inc.

Dear Mike,

This letter will set forth the binding agreement of employment (the "Agreement"), effective as of January 1, 2003 (the "Effective Date") between you and Cellegy Pharmaceuticals, Inc., a California corporation ("Cellegy" or the "Company"). This Agreement replaces the earlier Employment Agreement dated December 1, 1996, between you and the Company

1. EMPLOYMENT AND DUTIES

(a) Employment. During the Employment Term (as defined in Section 3 below), the Company agrees to employ you, and subject to Section 3 below, you agree to serve, as President and Chief Executive Officer of Cellegy. You will have such duties and authority as are customary for, and commensurate with, such positions, including general management and direction of the Company, and such other reasonable duties and authority as the Board of Directors of Cellegy (the "Board") prescribes from time to time. The Company agrees to use its best efforts to cause you to be nominated for re-election as a director of Cellegy for each of the years corresponding to the Employment Term.

(b) Exclusive Service. Except for your current participation as a Director of INEX Pharmaceuticals Corporation (or, in lieu of such company, one other corporation on whose board you serve as long as the corporation is not competitive with the business of the Company or such service would otherwise be inappropriate), you agree to devote your full working time and efforts to this employment and apply all your skill and experience to the performance of your duties and advancing the Company's interests in accordance with your experience and skills. In addition, during the Employment Term you will not act as a member of the Board of Directors for any corporation (except as described above) or engage in any other consulting activity without the prior written approval of Company (which approval shall not be withheld

unreasonably) unless so directed by the Company, and you will otherwise do nothing inconsistent with the performance of your duties hereunder.

2. COMPENSATION

(a) Salary. For your services under this Agreement, Cellegy will pay as base Salary to you the amount of $31,666.67 per month (an annualized salary of $380,000.00) (plus any adjustments made pursuant to this Agreement (the "Salary") during each of the calendar years of the Employment Term, pro rated for any year in which this Agreement is in effect for only a portion of the calendar year. Your Salary will be paid in conformity with Cellegy's normal payroll periods. The Board (or the Compensation Committee thereof) shall, in its discretion, review your Salary and other compensation at least annually. The Salary may, in the sole discretion of the Board (or the Compensation Committee), be adjusted upwards to take into consideration your performance and the economic circumstances of the Company. A downward adjustment of your Salary can only be effected by your written consent.

(b) Incentive Compensation. In the event the Board (or the Compensation Committee thereof) agrees to the implementation of an Incentive Compensation Program for senior executives of the Company, you will be entitled to participate in such program and be eligible to receive an annual cash bonus equal to a target percentage of your annual base Salary to be agreed upon by you and the Board or the Compensation Committee thereof (the "Incentive Compensation Target"). Such bonus will be paid on the basis of accomplishment measured against objective criteria to be determined by the Board of Directors (or the Compensation Committee thereof).

(c) Signing Bonus. As an incentive for you to enter into this employment agreement, within 90 days of execution of the Agreement, the Company will pay you the amount of $325,000.00. Such payment will be made, at the Company's option, in the form of fully registered unrestricted shares of Cellegy common stock pursuant to the Company's 1995 Equity Incentive Plan, cash, or a combination of stock and cash.

(d) Stock Options. As an employee of the Company since December 1996, you have been issued a number of incentive stock options (singularly and collectively, the "Options"). You are entitled to continue to participate in all of the Company's employee stock option and equity incentive plans that are generally available to executive employees, and the issuance of any such stock options pursuant to the plans will be considered Options.

(e) Other Benefits. You will be entitled to participate in and receive the maximum benefits available to Cellegy employees under Cellegy's standard company benefits plans as in effect from time to time which currently include: medical, dental and health insurance, a 401K savings plan and a long-term disability plan. You will also be entitled to four weeks of vacation time (20 business days) per year, subject to applicable Company policies; provided, however, that no more than 200% of the annual vacation days you earn in a given year shall carry over from year to year (in other words, the maximum number of vacation days in any year shall be limited to two times the base annual vacation

to which you are entitled).

(f) Health Benefits after Term of Agreement. In the event that you remain employed

by Cellegy throughout the initial three-year term of this Agreement, then provided that you elect coverage under the Consolidated Budget Reconciliation Act of 1985 (or, if applicable, any applicable corresponding state statute that provides for more favorable benefits; in either event, "COBRA"), the Company will, to the maximum extent permitted under its health, medical and dental insurance benefit plans, pay for continued coverage for you and your wife under such plans or, to the extent not so permitted, pay to you the amount of the premium payments to obtain continued provision under health insurance substantially equivalent to the Company's health, medical and dental insurance benefit plans as are in effect immediately before your termination of employment, in each of the above cases for the maximum period of time permitted by COBRA or, if longer, until you reach age 65 (with you remaining responsible for such percentage of payments under such insurance as you were responsible for contributing immediately before the employment termination).

(g) Expenses. During the term of your employment under this Agreement, you will be entitled to receive prompt reimbursement from Cellegy for all reasonable business-related expenses incurred by you, in accordance with Cellegy's policies and procedures as in effect from time to time, provided that such expenses are properly documented and accounted for in accordance with the requirements of the Internal Revenue Service.

(h) Deductions and Withholding. All amounts payable or which become payable under any provision of this Agreement will be subject to and reduced by any deductions authorized in writing by you and any deductions and withholdings required by law (including without limitation employment and withholding taxes).

3. TERM OF EMPLOYMENT

(a) Term. This Agreement will continue in full force and effect from and including the Effective Date through and including three years from the Effective Date unless your employment is sooner terminated pursuant to the provisions of this Agreement. Thereafter, the term of this Agreement shall automatically be renewed for two successive one-year terms on each anniversary of the Effective Date unless either party gives notice of the non-renewal of such annual term at least 90 days before commencement of the one-year term. The term of this Agreement (the "Employment Term") shall include the initial three years and both automatic renewals, unless your employment is terminated earlier as provided herein, in which case the Employment Term shall cease upon the date of such termination.

(b) Extension of Term. The Employment Term may be extended by a written amendment to this Agreement signed by both parties.

(c) Termination Without Cause. Your employment with Cellegy under this Agreement may be terminated by Cellegy at any time during the Employment Term by a majority vote of the Board, for any reason or for no reason, such termination to be effective upon delivery of written notice by Cellegy of Termination Without Cause. For purposes of this Agreement, a Termination Without Cause shall include termination for Good Reason, but shall not include your voluntary termination of your employment (other than for Good Reason) or termination of your employment for Cause. Termination Without Cause shall be deemed to include termination by reason of the non-renewal by either party of either automatic extension of

the term of this Agreement. "Good Reason" shall mean the occurrence of any of the following without your written consent: (a) assignment to you of a title position, responsibilities or duties that are materially less than the title position, responsibilities or duties which you occupied immediately preceding any termination of employment, except that following a Change of Control, a reduction in title position, responsibilities or duties solely by virtue of the Company being acquired and made part of a larger entity or operated as a subsidiary shall not constitute Good Reason as long as you are in charge of that subsidiary as its President and Chief Executive Officer or if part of a larger entity you remain the head of a group that is at a minimum substantially equivalent to the Company, (b) a material reduction in your base Salary, a material reduction in your target bonus opportunity after the occurrence of a Change of Control compared to the amount of the target bonus opportunity in effect before the occurrence of the Change of Control, or a material reduction in employee benefits other than a reduction applicable to employees generally, (c) the Company's requiring you to be based at any office or location more than 40 miles from 349 Oyster Point Boulevard, South San Francisco, California; or (d) any material breach by the Company of the terms of any written employment agreement between the Company and you (including this Agreement), which breach is not cured within twenty (20) days following written notice by you to the Company of such breach, including but not limited to the failure by the Company to require a successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform the Company's Change of Control obligations, as if no such succession had taken place. If you decide to terminate your employment for Good Reason (whether or not in connection with a Change of Control), you must terminate your employment within six (6) months of the date of the occurrence of the event constituting Good Reason.

(d) Termination for Cause. Your employment may be terminated for Cause by the Board, immediately upon delivery of termination notice thereof to you. For the purposes of this Agreement, "Cause" for your termination will exist at any time after the happening of one or more of the following events, as determined by the Company in its reasonable judgment: (i) your willful and deliberate failure or a refusal (not resulting from your incapacity due to physical or mental illness) to comply in any material respect with the legal or ethical policies, standards or regulations of the Company (including without limitation the Company's insider trading policy), or willful and deliberate failure to follow the lawful written directions of the Board of Directors, and provided that written notice, in reasonable detail as to the alleged failure or refusal, has been given to you by the Board and, if the failure is capable of cure, you have had a reasonable opportunity to cure such failure; (ii) your willful and deliberate failure or a refusal (not resulting from your incapacity due to physical or mental illness) in any material respect, faithfully or diligently, to perform your legal or ethical duties, determined by the Board of Directors in accordance with this Agreement or the customary duties of your employment of which you have or reasonably should have had prior knowledge, and provided that written notice, in reasonable detail as to the alleged failure or refusal, has been given to you by the Board and, if the failure is capable of cure, you have had a reasonable opportunity to cure such failure; (iii) your deliberate concealment from the Board of any action by the Company in violation of any legal or ethical policy standard or regulation set by the Board; (iv) your deliberate failure to obtain Board approval for any Company act requiring Board approval; (v) any unprofessional, unethical or fraudulent conduct that is demonstrably injurious and materially discredits the Company or is materially detrimental to the reputation, character or standing of the Company; (vi) dishonest

conduct or a deliberate attempt to do injury to the Company; (vii) your material breach of this Agreement or any invention assignment and confidentiality agreement between you and the Company; or (viii) your conviction of an unlawful or criminal act (serious in nature) which the Board of Directors reasonably concludes would reflect adversely on the Company, or your conviction of a felony or other crime involving embezzlement, fraud or any offense involving the money or property of the Company; provided, however, that with respect to clauses (i) and (ii) above, if your failure or refusal was the result of a reasonable good faith objection by you, which you set forth to the Board of Directors of the Company, that such compliance or performance would not be in the best interests of the Company and its shareholders or would violate an applicable law or regulation or ethical duty, then any such termination by the Board as a result of such failure or refusal shall be deemed to be a termination Without Cause.

(e) Termination Due to Death or Disability. Your employment under this Agreement will terminate immediately upon your death. The Company may also terminate your employment by notice to you in the event of your Disability. For purposes of this Agreement, "Disability" means (i) you have been incapacitated by bodily injury, illness or disease so as to be prevented thereby from engaging in the performance of your Executive's duties, (ii) such total incapacity shall have continued for a period of four consecutive months, and (iii) such incapacity will, in the opinion of your qualified physician, be permanent and continuous during the remainder of your life.

(f) Resignation as a Director. Upon termination of your employment, you agree, if the Company requests, to deliver to the Company promptly a written resignation as a director of the Company, effective upon the date of employment termination.

4. PAYMENTS AND BENEFITS AFTER TERMINATION OF EMPLOYMENT.

(a) Upon termination of your employment, the Company will pay you all unpaid salary and accrued vacation earned through the date of termination, less applicable federal and state withholding, and within ten (10) days of submission of proper expense reports, the Company will reimburse you for all expenses incurred by you before the date of termination in connection with the business of the Company and pursuant to applicable Company policies. Upon termination of this Agreement under either (i) Section 3(d) of this Agreement ("Termination for Cause"), or (ii) your voluntary termination of employment (other than for Good Reason or any non-renewal of either of the automatic extensions of this Agreement), all Salary, benefits and stock option vesting under this Agreement will cease immediately.

(b) Upon termination of this Agreement pursuant to Section 3(e) "Termination Due to Death or Disability", you will receive the benefits provided by the Company's health, life insurance, long term disability and other plans which may be in effect. In addition, you or your estate will receive additional compensation in the form of a payment of your Salary for a period of twelve (12) months (paid at the times that your Salary would otherwise be payable if you remained an employee), reduced by the amount of any life or disability insurance proceeds payable to you, your wife or your estate under paid-for Company life or disability insurance policies or plans. In addition, the period during which you or your estate may exercise any Options issued to you by the Company will continue until 12 months after the date of such termination.

(c) Upon termination pursuant to Section 3(c) of this Agreement ("Termination Without Cause" including "Termination for Good Reason") after the Effective Date, you will be paid severance by Cellegy in the form of a payment of your Salary for a period of eighteen (18) months from and after the date of such termination and one and one-half times (1.5x) the dollar amount of your Incentive Compensation Target (at the 100% level) corresponding to the Salary in effect for the year in which the termination occurred. In the event of your Termination Without Cause or for Good Reason during the period commencing on or after the date that the Company first publicly announces (or, if earlier, signs) a definitive agreement that would result in a Change of Control (as defined below) and ending on the date which is twelve (12) months after the occurrence of the Change of Control (a "Termination Upon a Change of Control"), you will be paid severance by Cellegy in the form of a continuation of your Salary for a period of twenty-four (24) months from and after the date of such termination (paid at the times that your Salary would otherwise be payable if you remained an employee), plus two times (2x) the dollar amount of the Incentive Compensation Target (at the 100% level) corresponding to the Salary in effect for the year in which the termination occurred, even if you have secured other employment (pro rated for the first and last month of such monthly periods, if your employment is terminated other than at the end of a calendar month). Nine (9) months or, in the case of Termination Upon a Change of Control, twelve (12) months, of this severance pay shall be paid in one lump sum upon termination, with the remainder being paid monthly in equal increments over the severance period. In addition, during the period that you are receiving severance payments and as long as you have not secured full-time employment with another employer (such period referred to as the "Eligibility Period"), to the extent permitted by applicable Company plans and policies and unless prohibited by law, your medical and dental, disability, and life insurance benefits will be continued (and paid by the Company) under such Company plans (with you remaining responsible for such percentage of payments under such insurance as you were responsible for contributing immediately before the employment termination). If health, medical and dental insurance benefits cannot be so continued, then provided that you elect coverage under COBRA, the Company or its successor will pay you the amount of the premium payments to obtain continued provision of health insurance substantially equivalent to the Company's health, medical and dental insurance benefit plans as are in effect immediately before your termination of employment, for the maximum period permitted by COBRA or, if longer, until you reach age 65 (with you remaining responsible for such percentage of payments under such insurance as you were responsible for contributing immediately before the employment termination), and shall also pay you an additional sum to cover any federal or state income or employment tax due on such premium payments. Your 401K and vacation accrual will cease on the termination date. During the period of payment of severance pay you will cooperate with Cellegy in providing for the orderly transition of your duties and responsibilities to other individuals, as reasonably requested by Cellegy.

(d) Moreover, if you are terminated for reasons other than Cause, the period during which you may exercise any Option issued to you by the Company will continue until eighteen (18) months after the date of employment termination (but in all events no longer than the original term of such Options).

(e) Moreover, in the event of a Termination Upon a Change of Control, all of the remaining balance of unvested Options will, to the extent not already vested and exercisable, accelerate and become immediately vested and exercisable, and you will have twenty-four (24)

months after the date of such termination within which to exercise such Options (but in all events no longer than the original term of such Options).

(f) If there is a Change of Control transaction in which outstanding Options granted (or restricted stock awards made) under the Company's 1995 Equity Incentive Plan before the transaction are not fully assumed by, or replaced by fully equivalent substitute options or restricted stock of, the surviving, successor or acquiring person or entity, then (i) all such unvested Options and restricted stock shall have their vesting fully accelerated to be 100% vested and exercisable immediately before the effective date of the Change of Control, and (ii) the Company shall provide reasonable prior notice to you of (A) the date such unexercised Options will terminate and (B) the period during which you may exercise the fully vested Options.

(g) The Company may condition payment of the cash severance payments and the stock option acceleration described in this Section 4 above upon the delivery by you of a signed general release of claims, in substantially the form attached to the Company's Retention and Severance Plan or such other form as is reasonably satisfactory to the Company, covering the Company and its parent and subsidiary entities, officers, directors and agents; provided, however, that you shall not be required to release any rights that you may have to be indemnified by the Company.

(h) If (1) any amounts payable to you under this Agreement are characterized as excess parachute payments pursuant to Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) you thereby would be subject to any United States federal excise tax due to that characterization, then you may elect, in your sole discretion, to reduce the amounts payable under this Agreement or to have any portion of applicable options or restricted stock not vest in order to avoid any "excess parachute payment" under Section 280G(b)(1) of the Code.

(i) For purposes of this Agreement, "Change of Control" means:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (A) the outstanding shares of common stock of the Company or (B) the combined voting power of the Company's then-outstanding securities;

(ii) the Company is party to a merger or consolidation, or series of related transactions, which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such

surviving entity outstanding immediately after such merger or consolidation;

(iii) the sale or disposition of all or substantially all of the Company's assets (or consummation of any transaction, or series of related transactions, having similar effect);

(iv) the dissolution or liquidation of the Company; provided, however, that the dissolution or liquidation of the Company shall be deemed to be a Change of Control only if the Company has sufficient cash to pay all amounts it is obligated to pay to any federal, state or local taxing or other authority, all of its creditors, and all amounts required to be paid to employees in respect of compensation or benefits, and only if the Board determines that treatment of such event as a Change of Control is consistent with its fiduciary duties; or

(v) any transaction or series of related transactions that has the substantial effect of any one or more of the foregoing.

5. OBLIGATIONS NOT TO COMPETE: NO SOLICITATION.

(a) Noncompetition. You hereby agree that while you are employed by Company, you shall not engage in or provide services to any business that is directly or indirectly competitive with or detrimental to any present or contemplated business of the Company known to you. Each of the following activities shall, without limitation, be deemed to constitute engaging in business within the meaning of this Section: to engage in, work with, have an interest or concern in, advise, lend money to, guarantee the debts or obligations of, or permit one's name or any part thereof to be used in connection with, an enterprise or endeavor, either individually, in partnership, or in conjunction with any person or persons, firms, associations, companies, or corporations, whether as a principal, agent, shareholder, employee, officer, director, partner, consultant or in any other manner whatsoever; provided, however, that you shall retain the right to invest in or have an interest in entities traded on any public market or offered by any national brokerage house, provided that said interest does not exceed five percent (5%) of the voting control of said entity. In addition, you may make passive investments in privately held entities that are determined by the Board of Directors of the Company not to be competitors of Company. You also agree that if your employment is terminated in connection with a Change of Control, then to the extent permitted by applicable law, for a period of one year after the date of such Change of Control transaction, you shall not engage in (as defined above) any activity with, or provide services to, any persons, firms, associations, companies, corporations, partnerships, or entities that the Company in good faith reasonably determines are directly or indirectly competitive with the then-present or contemplated business of the Company following notification by you to the Company (which prior notification you agree to provide before engaging in any such activity or service and which notice shall describe the company, the title of the position and the general area of responsibility only) that you in good faith desire to accept to engage in such activity or service; provided, however, that the Company may not make more than five (5) separate such determinations.

(b) Nonsolicitation; Transition Services. You agree that as long as you are an employee of the Company and for one year thereafter (the "Restricted Period"), (i) you shall not directly or indirectly, either for yourself or for any other person or entity, directly or indirectly, solicit, induce or attempt to induce any employee of the Company to terminate his or her employment with the Company; and (ii) you will not in any manner attempt to induce or assist others to attempt to induce any employee, distributor, vendor, representative, business partner, distributor, licensee, manufacturer, customer, or other person or entity with whom the Company has a business relationship to discontinue that person's or entity's relationship with or to the Company, nor do anything directly or indirectly to interfere with the relationship between the Company and any such persons or concerns. If the Company performs its obligations to deliver the severance benefits set forth in this Agreement, then for a period of (i) one (1) year in the case of a Termination Upon a Change of Control, and (ii) six (6) months in the case of a Termination in the absence of a Change of Control, after your termination of employment, to the maximum extent enforceable by law, you agree to provide reasonable transition consulting services (not involving travel) as requested by the Company, provided that such services do not require you to devote any significant amount of your business time to such services.

6. MISCELLANEOUS. This Agreement contains the entire understanding and sole and entire agreement between us with respect to the subject matter of the Agreement, supersedes any and all prior agreements, negotiations and discussions between us with respect to the subject matter covered hereby, including but not limited to the Agreement dated December 1, 1996, and may only be modified by an agreement in writing signed by Cellegy and you. If any provision of the Agreement is held to be invalid or otherwise unenforceable, in whole or in part, the remainder of such provision and the remainder of this Agreement will not be affected thereby and will be enforced to the fullest extent permitted by law. Neither this Agreement nor the rights or obligations under this Agreement will be assignable by you. Cellegy may assign the Agreement to any successor of Cellegy without your consent. This Agreement will be binding upon our respective successors and assigns and upon your heirs, executors and administrators. This Agreement will be governed by and constructed under the laws of the State of California without regard to conflict of laws. Any notice, request, demand or other communication required or permitted under this Agreement will be deemed to be properly given when personally served in writing, or two days after deposit in the United States mail, postage pre-paid, or one business day after deposit with a reputable national courier service for overnight delivery with confirmation of receipt, addressed to Cellegy at its principal executive office, or to you at the address shown at the beginning of this letter, or by facsimile upon confirmation of receipt. Each of us may change our respective address for notice purposes by written notice to the other in accordance with this Section.

7. ARBITRATION. Cellegy and you shall submit to mandatory binding arbitration in any controversy or claim arising out of, or relating to, this Agreement or any breach hereof or your employment relationship with the Company; provided, however, that both you and the Company retain the right to seek or obtain, and shall not be prohibited, limited or in any other way restricted from seeking or obtaining, equitable relief from a court having jurisdiction over the parties in order to enforce the nonsolicitation and noncompetition provisions of Section 5 above or any disputes or claims relating to or arising out of the misuse or misappropriation of the Company's intellectual property. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association then in effect. Judgment upon the determination

or award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The parties shall each pay one-half of all fees and costs of the arbitration. Punitive damages shall not be awarded.

8. ATTORNEY FEES. In any action arising out of or relating to this Agreement, the non-prevailing party shall pay the reasonable attorney fees and costs of the prevailing party.

Sincerely,

CELLEGY PHARMACEUTICALS, INC.

By: The Compensation Committee of Cellegy Pharmaceuticals

Jack Bowman

Alan Steigrod

ACCEPTED AND AGREED:

- ---
K. Michael Forrest

Execution Copy

Exhibit 10.9

COMMON STOCK PURCHASE AGREEMENT

by and between

KINGSBRIDGE CAPITAL LIMITED

and

CELLEGY PHARMACEUTICALS, INC.

dated as of January 16, 2004

Table of Contents

Table of Contents
(Continued)

Page

Table of Contents
(Continued)

Table of Contents
(Continued)

Table of Contents
(Continued)

COMMON STOCK PURCHASE AGREEMENT

by and between

KINGSBRIDGE CAPITAL LIMITED

and

CELLEGY PHARMACEUTICALS, INC.

dated as of January 16, 2004

This COMMON STOCK PURCHASE AGREEMENT is entered into as of the 16th day of January, 2004 (this "Agreement"), by and between Kingsbridge Capital Limited, an company organized and existing under the laws of the British Virgin Islands (the "Investor") and CELLEGY PHARMACEUTICALS, INC., a corporation organized and existing under the laws of the State of California (the "Company").

WHEREAS, the parties desire that, upon the terms and subject to the conditions set forth herein, the Company may issue and sell to the Investor, from time to time as provided herein, and the Investor shall purchase from the Company, up to 3,740,000 shares of Common Stock (as defined below); and

WHEREAS, such investments will be made in reliance upon the provisions of Section 4(2) ("Section 4(2)") and Regulation D ("Regulation D") of the United States Securities Act of 1933, as amended and the rules and regulations promulgated thereunder (the "Securities Act"), and/or upon such other exemption from the registration requirements of the Securities Act as may be available with respect to any or all of the investments in Common Stock to be made hereunder; and

WHEREAS, the parties hereto are concurrently entering into a Registration Rights Agreement in the form of Exhibit A hereto (the "Registration Rights Agreement") pursuant to which the Company shall register the Common Stock issued and sold to the Investor under this Agreement and under the Warrant (as defined below), upon the terms and subject to the conditions set forth therein; and

WHEREAS, in consideration for the Investor's execution and delivery of, and its performance of its obligations under, this Agreement, the Company is concurrently issuing to the Investor a Warrant in the form of Exhibit B hereto (the "Warrant") pursuant to which the Investor may purchase from the Company up to 260,000 shares of Common Stock, upon the terms and subject to the conditions set forth therein;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 "Articles" shall have the meaning assigned to such term in Section 4.03 hereof.

Section 1.02 "Blackout Amount" shall have the meaning assigned to such term in the Registration Rights Agreement.

Section 1.03 "Blackout Shares" shall have the meaning assigned to such term in the Registration Rights Agreement.

Section 1.04 "Closing Date" means the date on which this Agreement is executed and delivered by the Company and the Investor.

Section 1.05 "Commission" means the United States Securities Exchange Commission.

Section 1.06 "Commission Documents" shall have the meaning assigned to such term in Section 4.06 hereof.

Section 1.07 "Commitment Period" means the period commencing on the Effective Date and expiring on the earliest to occur of (x) the date on which the Investor shall have purchased Shares pursuant to this Agreement for an aggregate purchase price equal to the Maximum Commitment Amount, (y) the date this Agreement is terminated pursuant to Article IX hereof, and (z) the date occurring 24 months from the Effective Date.

Section 1.08 "Common Stock" means the common stock of the Company, no par value.

Section 1.09 "Condition Satisfaction Date" shall have the meaning assigned to such term in Article VII hereof.

Section 1.10 "Damages" means any loss, claim, damage, liability, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses and costs and reasonable expenses of expert witnesses and investigation).

Section 1.11 "Draw Down" shall have the meaning assigned to such term in Section 3.01 hereof.

Section 1.12 "Draw Down Amount" means the actual amount of a Draw Down paid to the Company.

Section 1.13 "Draw Down Discount Price" means (i) 88% of the VWAP on any Trading Day during the Draw Down Pricing Period when the VWAP equals to or exceeds $1.25 but is less than or equal to $2.50, (ii) 90% of the VWAP on any Trading Day during the Draw Down Pricing Period when the VWAP exceeds $2.50 but is less than or equal to $7.00, and (iii) 92% of the VWAP on any Trading Day during the Draw Down Pricing Period when the VWAP exceeds $7.00.

Section 1.14 "Draw Down Notice" shall have the meaning assigned to such term in Section 3.01 hereof.

Section 1.15 "Draw Down Pricing Period" shall mean, with respect to each Draw Down, a period of fifteen (15) consecutive Trading Days beginning on the first Trading Day specified in a Draw Down Notice.

Section 1.16 "Effective Date" means the first Trading Day immediately following the date on which the Registration Statement is declared effective by the Commission.

Section 1.17 "Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

Section 1.18 "Knowledge" means the actual knowledge of the Chief Executive Officer, Chief Financial Officer or any Senior Vice President or Vice President of the Company.

Section 1.19 "Legend" shall have the meaning specified in Section 8.1.

Section 1.20 "Make Whole Amount" shall have the meaning specified in Section 3.10.

Section 1.21 "Market Capitalization" means, as of any Trading Day, the product of (i) the closing sale price of the Company's Common Stock as reported by Bloomberg L.P. using the AQR function and (ii) the number of outstanding shares of Common Stock of the Company as reported by Bloomberg L.P. using the DES function.

Section 1.22 "Market Cap Increase Quotient" means the quotient of (x) the New Market Cap divided by (y) the Old Market Cap.

Section 1.23 "Material Adverse Effect" means any effect on the business, operations, properties or financial condition of the Company and its consolidated subsidiaries that is material and adverse to the Company and such subsidiaries, taken as a whole, and/or any condition, circumstance, or situation that would prohibit or otherwise interfere with the ability of the Company to perform any of its obligations under this Agreement, the Registration Rights Agreement or the Warrant in any material respect; provided, that none of the following shall constitute a "Material Adverse Effect": (i) the effects of conditions or events that are generally applicable to the capital, financial, banking or currency markets, (ii) any changes or effects resulting from the announcement or consummation of the transactions contemplated by this Agreement, including, without limitation, any changes or effects associated with any particular Draw Down, and (iii) changes in the market price of the Company's Common Stock.

Section 1.24 "Maximum Commitment Amount" means $15 million in aggregate Draw Down Amounts; provided, however, that in the event that the New Market Cap is higher than the Old Market Cap as of the date the Company files the Registration Statement with the Commission, "Maximum Commitment Amount" shall mean the product of (i) $15 million multiplied by (ii) the Market Cap Increase Quotient.

Section 1.25 "Maximum Draw Down Amount" means 2.5% of the Company's Market Capitalization at the time of the Draw Down; provided, however, that such amount shall not exceed $5 million in respect of any Draw Down.

Section 1.26 "NASD" means the National Association of Securities Dealers, Inc.

Section 1.27 "New Market Cap" means the Company's Market Capitalization as of the end of the Trading Day immediately preceding the date on which the Company files the Registration Statement with the Commission

Section 1.28 "Other Financing" shall have the meaning assigned to such term in Section 6.07 hereof.

Section 1.29 "Old Market Cap" means the Company's Market Capitalization as of the date hereof

Section 1.30 "Permitted Transaction" shall have the meaning assigned to such term in Section 6.07 hereof.

Section 1.31 "Person" means any individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including any government or political subdivision or an agency or instrumentality thereof.

Section 1.32 "Principal Market" means the Nasdaq National Market, the Nasdaq SmallCap Market, the American Stock Exchange or the New York Stock Exchange, whichever is at the time the principal trading exchange or market for the Common Stock.

Section 1.33 "Prohibited Transaction" shall have the meaning assigned to such term in Section 6.08 hereof.

Section 1.34 "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement, as supplemented from time to time pursuant to Rule 424(b) of the Securities Act.

Section 1.35 "Registrable Securities" means (i) the Shares, (ii) the Warrant Shares, and (iii) any securities issued or issuable with respect to any of the foregoing by way of exchange, stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise. As to any particular Registrable Securities, once issued such securities shall cease to be Registrable Securities when (w) the Registration Statement has been declared effective by the SEC and such Registrable Securities have been disposed of pursuant to the Registration Statement, (x) such Registrable Securities have been sold under circumstances under which all of the applicable conditions of Rule 144 (or any similar provision then in force) under the Securities Act ("Rule 144") are met, (y) such time as such Registrable Securities have been otherwise transferred to holders who may trade such shares without restriction under the Securities Act, and the Company has delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend or (z) in the opinion of counsel to the Company such Registrable Securities may be sold without registration and without any time, volume or manner limitations pursuant to Rule 144(k) (or any similar provision then in effect) under the Securities Act.

Section 1.36 "Registration Rights Agreement" shall have the meaning set forth in the recitals of this Agreement.

Section 1.37 "Registration Statement" shall have the meaning assigned to such term in the Registration Rights Agreement.

Section 1.38 "Regulation D" shall have the meaning set forth in the recitals of this Agreement.

Section 1.39 "Section 4(2)" shall have the meaning set forth in the recitals of this Agreement.

Section 1.40 "Securities Act" shall have the meaning set forth in the recitals of this Agreement.

Section 1.41 "Settlement Date" shall have the meaning assigned to such term in Section 3.06 hereof.

Section 1.42 "Shares" means the shares of Common Stock of the Company that are and/or may be purchased hereunder.

Section 1.43 "Threshold Price" means the lowest "Draw Down Discount Price" (as specified in a Draw Down Notice) at which the Company will agree to sell Shares during the applicable Draw Down Pricing Period, which price shall not be less than $1.25 per share.

Section 1.44 "Trading Day" means any day other than a Saturday or a Sunday on which the Principal Market is open for trading in equity securities.

Section 1.45 "Underwriter" shall mean any underwriter (other than the Investor, to the extent it is deemed to be a statutory underwriter) participating in any disposition of the Registrable Securities on behalf of the Investor pursuant to the Registration Statement.

Section 1.46 "VWAP" means the volume weighted average price (the aggregate sales price of all trades of Common Stock during each Trading Day divided by the total number of shares of Common Stock traded during such Trading Day) of the Common Stock during any Trading Day as reported by Bloomberg, L.P. using the AQR function.

Section 1.47 "Warrant" shall have the meaning set forth in the recitals of this Agreement.

Section 1.48 "Warrant Shares" means the shares of Common Stock issuable to the Investor upon exercise of the Warrant.

ARTICLE II

PURCHASE AND SALE OF COMMON STOCK

Section 2.01 Purchase and Sale of Stock. Upon the terms and subject to the conditions set forth in this Agreement, the Company shall issue and sell to the Investor and the Investor shall purchase from the Company Common Stock for an aggregate (in Draw Down Amounts) of up to the Maximum Commitment Amount, consisting of purchases based on Draw Downs in accordance with Article III hereof.

Section 2.02 Closing. In consideration of and in express reliance upon the representations, warranties, covenants, terms and conditions of this Agreement, the Company agrees to issue and sell to the Investor, and the Investor agrees to purchase from the Company, that number of the Shares to be issued in connection with each Draw Down. The closing of the

execution and delivery of this Agreement (the "Closing") shall take place at the offices of Clifford Chance US LLP, 200 Park Avenue, New York, NY 10166 at 4:00 p.m. local time on January 15th, 2004, or at such other time and place or on such date as the Investor and the Company may agree upon (the "Closing Date"). Each party shall deliver all documents, instruments and writings required to be delivered by such party pursuant to this Agreement at or prior to the Closing.

Section 2.03 Registration Statement and Prospectus. Promptly after the Closing, the Company shall prepare and file with the Commission the Registration Statement (including the Prospectus) in accordance with the provisions of the Securities Act and the Registration Rights Agreement.

Section 2.04 Warrant. On the Closing Date, the Company shall issue and deliver the Warrant to the Investor.

Section 2.05 Blackout Shares. The Company shall issue and deliver any Blackout Shares, if any, to the Investor in accordance with Section 1(e) of the Registration Rights Agreement.

ARTICLE III

DRAW DOWN TERMS

Subject to the satisfaction of the conditions hereinafter set forth in this Agreement, the parties agree as follows:

Section 3.01 Draw Down Notice. The Company, may, in its sole discretion, issue a Draw Down Notice with respect to a Draw Down up to a Draw Down Amount equal to the Maximum Draw Down Amount (each, a "Draw Down") during the Commitment Period, which Draw Down the Investor will be obligated to accept. The Company shall inform the Investor via facsimile transmission, with a copy to the Investor's counsel, as to the Draw Down Amount the Company wishes to exercise before commencement of trading on the first Trading Day of any Draw Down Pricing Period (the "Draw Down Notice"). In addition to the Draw Down Amount, each Draw Down Notice shall specify the Threshold Price in respect of the applicable Draw Down and shall designate the first Trading Day of the Draw Down Pricing Period. In no event shall any Draw Down Amount exceed the Maximum Draw Down Amount. Each Draw Down Notice shall be accompanied by a certificate, signed by the Chief Executive Officer or Chief Financial Officer dated, as of the date of such Draw Down Notice, in the form of Exhibit C hereof.

Section 3.02 Number of Shares. The number of Shares to be issued in connection with each Draw Down shall be equal to the sum of the quotients (for each Trading Day of the Draw Down Pricing Period for which the Draw Down Discount Price equals or exceeds the Threshold Price) of one fifteenth (1/15th) of the Draw Down Amount divided by the applicable Draw Down Discount Price.

Section 3.03 Limitation on Draw Downs. Only one Draw Down shall be permitted for each Draw Down Pricing Period.

Section 3.04 Trading Cushion. Unless the parties agree in writing otherwise, there shall be a minimum of three (3) Trading Days between the expiration of any Draw Down Pricing Period and the beginning of the next succeeding Draw Down Pricing Period.

Section 3.05 Expiration of Draw Downs. Each Draw Down will expire on the last Trading Day of each Draw Down Pricing Period.

Section 3.06 Settlement. The number of Shares purchased by the Investor with respect to each Draw Down shall be determined and settled on a periodic basis in respect of the applicable Draw Down Pricing Period. Settlement in respect of each determination shall be made no later than the third Trading Day after the fifth, tenth and fifteenth Trading Day of the Draw Down Pricing Period. Each date on which settlement of the purchase and sale of Shares occurs hereunder being referred to as a "Settlement Date." The Investor shall provide the Company with delivery instructions for the Shares to be issued at each Settlement Date at least two Trading Days in advance of such Settlement Date (except to the extent previously provided). The number of Shares actually issued shall be rounded to the nearest whole number of Shares.

Section 3.07 Delivery of Shares; Payment of Draw Down Amount. On each Settlement Date, the Company shall deliver the Shares purchased by the Investor to the Investor or its designees via book-entry through the Depositary Trust Company to an account designated by the Investor, and upon receipt of the Shares, the Investor shall cause payment therefor to be made to the Company's designated account by wire transfer of immediately available funds, if the Shares are received by the Investor no later than 1:00 p.m. (Eastern Time), or next day available funds, if the Shares are received thereafter.

Section 3.08 Threshold Price. For each Trading Day during a Draw Down Pricing Period that the Draw Down Discount Price is less than the Threshold Price, no Shares shall be purchased or sold on such Trading Day and the total amount of the Draw Down Amount in respect of such Draw Down Pricing Period shall be reduced by one fifteenth (1/15th). At no time shall the Threshold Price be set below $1.25. If trading in the Company's Common Stock is suspended for any reason for more than three (3) consecutive or non-consecutive hours during any Trading Day during a Draw Down Pricing Period, the Draw Down Discount Price shall be deemed to be less than the Threshold Price for that Trading Day.

Section 3.09 Other Issuances. If during any Draw Down Pricing Period the Company shall (with the consent of the Investor pursuant to Section 6.07 or 6.08 hereof, if applicable) issue any shares of Common Stock to any Person other than the Investor (other than shares of Common Stock issued in connection with a Permitted Transaction), that the applicable Draw Down Notice shall be deemed null and void and the Investor shall promptly return to the Company any and all Shares transferred to the Investor in respect of any Settlement Date(s) during such Draw Down Pricing Period and the Company shall promptly thereafter pay to the Investor by wire transfer of immediately available funds to an account designated by the Investor that portion of the applicable Draw Down Amount paid to the Company in respect of such Settlement Date(s).

Section 3.10 Failure to Deliver Shares. If on any Settlement Date, the Company fails to deliver the Shares to be purchased by the Investor, and such failure is not cured within ten (10) Trading Days following the date on which the Investor delivered payment for such Shares, the Company shall pay to the Investor on demand in cash by wire transfer of immediately available funds to an account designated by the Investor the "Make Whole Amount;" provided, however, that in the event that the Company is prevented from delivering Shares in respect of any such Settlement Date in a timely manner by any fact or circumstance that is reasonably within the

control of, or directly attributable to, the Investor, then such ten (10) Trading Day period shall be automatically extended until such time as such fact or circumstance is cured. As used herein, the Make Whole Amount shall be an amount equal to the sum of (i) the Draw Down Amount actually paid by the Investor in respect of such Shares plus (ii) an amount equal to the actual loss suffered by the Investor in respect of sales to subsequent purchasers, pursuant to transactions entered into before the Settlement Date, of the Shares that were required to be delivered by the Company, which shall be based upon documentation reasonably satisfactory to the Company demonstrating the difference (if greater than zero) between (A) the price per share paid by the Investor to purchase such number of shares of Common Stock necessary for the Investor to meet its share delivery obligations to such subsequent purchasers minus (B) the average Draw Down Discount Price during the applicable Draw Down Pricing Period. In the event that the Make Whole Amount is not paid within two (2) Trading Days following a demand therefor from the Investor, the Make Whole Amount shall accrue interest compounded daily at a rate of five percent (5%) per annum up to and including the date on which the Make Whole Amount is actually paid. Notwithstanding anything to the contrary set forth in this Agreement, in the event that the Company pays the Make Whole Amount (plus interest, if applicable) in respect of any Settlement Date in accordance with this Section 3.10, such payment shall be the Investor's sole remedy in respect of the Company's failure to deliver Shares in respect of such Settlement Date, and the Company shall not be obligated to deliver such Shares.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby makes the following representations and warranties to the Investor:

Section 4.01 Organization, Good Standing and Power. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Except as set forth in the Commission Documents (as defined below), the Company does not own more than fifty percent (50%) of the outstanding capital stock of or control any other business entity, other than any wholly-owned subsidiary that is not "significant" within the meaning of Regulation S-X promulgated by the Commission. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, other than those in which the failure so to qualify or be in good standing would not have a Material Adverse Effect.

Section 4.02 Authorization; Enforcement. (i) The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement, the Registration Rights Agreement and the Warrant and to issue the Shares, the Warrant, the Warrant Shares and any Blackout Shares (except to the extent that the number of Blackout Shares required to be issued exceeds the number of authorized shares of Common Stock under the Articles); (ii) the execution and delivery of this Agreement and the Registration Rights Agreement, and the execution, issuance and delivery of the Warrant, by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action and no further consent or authorization of the Company or its Board of Directors or stockholders is required (other than as contemplated by Section 6.05); and (iii) each of this Agreement and the Registration Rights Agreement has been duly executed and delivered, and the Warrant has been duly executed, issued and delivered, by the Company and constitute the valid and binding obligations of the Company enforceable against the Company in accordance with

their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application.

Section 4.03 Capitalization. The authorized capital stock of the Company and the shares thereof issued and outstanding as of December 31, 2003 are set forth on a Schedule previously delivered to the Investor. All of the outstanding shares of the Common Stock have been duly and validly authorized and issued, and are fully paid and non-assessable. Except as set forth in this Agreement or as previously disclosed to the Investor in writing, as of the date hereof no shares of Common Stock are entitled to preemptive rights or registration rights and there are no outstanding options, warrants, scrip, rights to subscribe to, call or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for or giving any right to subscribe for, any shares of capital stock of the Company. Except as set forth in this Agreement or as previously disclosed to the Investor in writing, as of the date hereof, there are no contracts, commitments, understandings, or arrangements by which the Company is or may become bound to issue additional shares of the capital stock of the Company or options, securities or rights convertible into or exchangeable for or giving any right to subscribe for any shares of capital stock of the Company. Except as previously disclosed to the Investor in writing, as of the date hereof the Company is not a party to any agreement granting registration rights to any Person with respect to any of its equity or debt securities. Except as previously disclosed to the Investor in writing, as of the date hereof the Company is not a party to, and it has no Knowledge of, any agreement restricting the voting or transfer of any shares of the capital stock of the Company. The offer and sale of all capital stock, convertible securities, rights, warrants, or options of the Company issued during the twenty-four month period immediately prior to the Closing complied with all applicable federal and state securities laws, and no stockholder has a right of rescission or damages with respect thereto that could reasonably be expected to have a Material Adverse Effect. The Company has furnished or made available to the Investor true and correct copies of the Company's Amended and Restated Articles of Incorporation, as amended and in effect on the date hereof (the "Articles"), and the Company's Bylaws, as amended and in effect on the date hereof (the "Bylaws").

Section 4.04 Issuance of Shares. The Shares, the Warrant and the Warrant Shares have been, and any Blackout Shares will be, duly authorized by all necessary corporate action (except to the extent that the number of Blackout Shares required to be issued exceeds the number of authorized shares of Common Stock under the Articles) and, when issued and paid for in accordance with the terms of this Agreement, the Registration Rights Agreement and the Warrant, the Shares and the Warrant Shares shall be validly issued and outstanding, fully paid and non-assessable, and the Investor shall be entitled to all rights accorded to a holder of shares of Common Stock.

Section 4.05 No Conflicts. The execution, delivery and performance of this Agreement, the Registration Rights Agreement, the Warrant and any other document or instrument contemplated hereby or thereby, by the Company and the consummation by the Company of the transactions contemplated hereby and thereby do not: (i) violate any provision of the Articles or Bylaws, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, mortgage, deed of trust, indenture, note, bond, license, lease agreement, instrument or obligation to which the Company is a party, (iii) create or impose a lien, charge or encumbrance on any property of the Company under any agreement or any commitment to which the Company is a party or by which the Company is bound or by which any of its respective properties or assets are bound, or \

(iv) result in a violation of any federal, state, local or foreign statute, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations) applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries are bound or affected, except, in all cases, for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect. The Company is not required under federal, state or local law, rule or regulation to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement, the Registration Rights Agreement or the Warrant, or issue and sell the Shares, the Warrant Shares or the Blackout Shares (except to the extent that the number of Blackout Shares required to be issued exceeds the number of authorized shares of Common Stock under the Articles) in accordance with the terms hereof and thereof (other than any filings that may be required to be made by the Company with the Commission, the NASD/Nasdaq or state securities commissions subsequent to the Closing, and, any registration statement (including any amendment or supplement thereto) which may be filed pursuant hereto); provided that, for purposes of the representation made in this sentence, the Company is assuming and relying upon the accuracy of the relevant representations and agreements of the Investor herein.

Section 4.06 Commission Documents, Financial Statements. The Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act and the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the Commission pursuant to the reporting requirements of the Exchange Act, including material filed pursuant to Section 13(a) or 15(d) of the Exchange Act (all of the foregoing, including filings incorporated by reference therein, being referred to herein as the "Commission Documents"). Except as previously disclosed to the Investor in writing, the Company has maintained all requirements for the continued listing or quotation of its Common Stock, and such Common Stock is currently listed or quoted on the Nasdaq National Market. The Company has made available to the Investor true and complete copies of the Commission Documents filed with the Commission since December 31, 2002 and prior to the Closing Date. The Company has not provided to the Investor any information which, according to applicable law, rule or regulation, should have been disclosed publicly by the Company but which has not been so disclosed, other than with respect to the transactions contemplated by this Agreement. As of its date, the Company's Form 10-K for the year ended December 31, 2002 complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the Commission promulgated thereunder applicable to such document, and, as of its date, after giving effect to the information disclosed and incorporated by reference therein, such Form 10-K did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates, the financial statements of the Company included in the Commission Documents filed with the Commission since December 31, 2002 complied as to form and substance in all material respects with applicable accounting requirements and the published rules and regulations of the Commission or other applicable rules and regulations with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements), and fairly present in all material respects the financial position of the Company and its subsidiaries as of the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

Section 4.07 No Material Adverse Change. Except as disclosed in the Commission Documents, since December 31, 2002 no event or series of events has or have occurred that would, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 4.08 No Undisclosed Liabilities. Neither the Company nor any of its subsidiaries has any liabilities, obligations, claims or losses (whether liquidated or unliquidated, secured or unsecured, absolute, accrued, contingent or otherwise) that would be required to be disclosed on a balance sheet of the Company or any subsidiary (including the notes thereto) in conformity with GAAP and are not disclosed in the Commission Documents, other than those incurred in the ordinary course of the Company's or its subsidiaries respective businesses since December 31, 2002 and which, individually or in the aggregate, do not or would not have a Material Adverse Effect on the Company.

Section 4.09 No Undisclosed Events or Circumstances. No event or circumstance has occurred or exists with respect to the Company or its subsidiaries or their respective businesses, properties, operations or financial condition, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed and which, individually or in the aggregate, do not or would not have a Material Adverse Effect on the Company.

Section 4.10 Actions Pending. There is no action, suit, claim, investigation or proceeding pending or, to the Knowledge of the Company, threatened against the Company or any subsidiary which questions the validity of this Agreement or the transactions contemplated hereby or any action taken or to be taken pursuant hereto or thereto. Except as set forth in the Commission Documents or on Schedule 4.10, there is no action, suit, claim, investigation or proceeding pending or, to the Knowledge of the Company, threatened, against or involving the Company, any subsidiary or any of their respective properties or assets that could be reasonably expected to have a Material Adverse Effect on the Company. Except as set forth in the Commission Documents or on Schedule 4.10, no judgment, order, writ, injunction or decree or award has been issued by or, so far as is known by the Company, requested of any court, arbitrator or governmental agency which might result in a Material Adverse Effect.

Section 4.11 Compliance with Law. The businesses of the Company and its subsidiaries have been and are presently being conducted in accordance with all applicable federal, state and local governmental laws, rules, regulations and ordinances, except as set forth in the Commission Documents or such that would not reasonably be expected to cause a Material Adverse Effect. Except as set forth in the Commission Documents, the Company and each of its subsidiaries have all franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals necessary for the conduct of its business as now being conducted by it, except for such franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals, the failure to possess which, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

Section 4.12 Certain Fees. Except as expressly set forth in this Agreement, no brokers, finders or financial advisory fees or commissions will be payable by the Company or any of its subsidiaries in respect of the transactions contemplated by this Agreement.

Section 4.13 Disclosure. To the best of the Company's Knowledge, neither this Agreement nor the Schedules hereto nor any other documents, certificates or instruments furnished to the Investor by or on behalf of the Company or any subsidiary in connection with the transactions contemplated by this Agreement contain any untrue statement of a material fact or

omit to state a material fact necessary in order to make the statements made herein or therein, in the light of the circumstances under which they were made herein or therein, not misleading.

Section 4.14 Material Non-Public Information. Except for this Agreement and the transactions contemplated hereby, neither the Company nor its agents have disclosed to the Investor, any material non-public information that, according to applicable law, rule or regulation, should have been disclosed publicly by the Company prior to the date hereof but which has not been so disclosed.

Section 4.15 Exemption from Registration; Valid Issuances. The issuance and sale of the Shares, the Warrant, the Warrant Shares and any Blackout Shares in accordance with the terms and on the bases of the representations and warranties set forth in this Agreement, may and shall be properly issued pursuant to Section 4(2), Regulation D and/or any other applicable federal and state securities laws. Neither the sales of the Shares, the Warrant, the Warrant Shares or any Blackout Shares pursuant to, nor the Company's performance of its obligations under, this Agreement, the Registration Rights Agreement, or the Warrant shall (i) result in the creation or imposition of any liens, charges, claims or other encumbrances upon the Shares, the Warrant Shares, any Blackout Shares or any of the assets of the Company, or (ii) except as previously disclosed to the Investor in writing, entitle the holders of any outstanding shares of capital stock of the Company to preemptive or other rights to subscribe to or acquire the shares of Common Stock or other securities of the Company. The Shares, the Warrant Shares and any Blackout Shares shall not subject the Investor to personal liability by reason of the ownership thereof.

Section 4.16 No General Solicitation or Advertising in Regard to this Transaction. Neither the Company nor any of its affiliates or any person acting on its or their behalf (i) has conducted any general solicitation (as that term is used in Rule 502(c) of Regulation D) or general advertising with respect to any of the Shares, the Warrant, the Warrant Shares or any Blackout Shares or (ii) has made any offers or sales of any security or solicited any offers to buy any security under any circumstances that would require registration of the Shares under the Securities Act.

Section 4.17 No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, other than pursuant to this Agreement and employee benefit plans, under circumstances that would require registration under the Securities Act of shares of the Common Stock issuable hereunder with any other offers or sales of securities of the Company.

Section 4.18 Acknowledgment Regarding Investor's Purchase of Shares. The Company acknowledges and agrees that the Investor is acting solely in the capacity of an arm's length Investor with respect to this Agreement and the transactions contemplated hereunder. The Company further acknowledges that the Investor is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereunder and any advice given by the Investor or any of its representatives or agents in connection with this Agreement and the transactions contemplated hereunder is merely incidental to the Investor's purchase of the Shares.

ARTICLE V

REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE INVESTOR

The Investor hereby makes the following representations, warranties and covenants to the Company:

Section 5.01 Organization and Standing of the Investor. The Investor is a company duly organized, validly existing and in good standing under the laws of the British Virgin Islands.

Section 5.02 Authorization and Power. The Investor has the requisite power and authority to enter into and perform its obligations under this Agreement, the Registration Rights Agreement and the Warrant and to purchase the Shares in accordance with the terms hereof. The execution, delivery and performance of this Agreement by Investor and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary corporate action, and no further consent or authorization of the Investor, its Board of Directors or stockholders is required. This Agreement has been duly executed and delivered by the Investor and constitutes a valid and binding obligation of the Investor enforceable against the Investor in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation, conservatorship, receivership, or similar laws relating to, or affecting generally the enforcement of creditor's rights and remedies or by other equitable principles of general application.

Section 5.03 No Conflicts. The execution, delivery and performance of this Agreement, the Registration Rights Agreement, the Warrant and any other document or instrument contemplated hereby, by the Investor and the consummation of the transactions contemplated thereby do not (i) violate any provision of the Investor's charter documents or bylaws, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, mortgage, deed of trust, indenture, note, bond, license, lease agreement, instrument or obligation to which the Investor is a party, (iii) create or impose a lien, charge or encumbrance on any property of the Investor under any agreement or any commitment to which the Investor is a party or by which the Investor is bound or by which any of its respective properties or assets are bound or (iv) result in a violation of any federal, state, local or foreign statute, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations) applicable to the Investor or by which any property or asset of the Investor are bound or affected, except in all cases, for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, prohibit or otherwise interfere with the ability of the Investor to enter into and perform its obligations under this Agreement in any material respect. The Investor is not required under federal, state or local law, rule or regulation to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or to purchase the Shares in accordance with the terms hereof, provided that, for purposes of the representation made in this sentence, the Investor is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

Section 5.04 Financial Capability The Investor has the financial capability to perform all of its obligations under this Agreement, including the capability to purchase the Shares in accordance with the terms hereof. The Investor is an "accredited investor" as defined in Regulation D.

Section 5.05 Information. The Investor and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Shares which have been requested by the Investor. The Investor and its advisors, if any, have been afforded the opportunity to ask questions of the Company. The Investor has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Shares. The Investor understands that it (and not the Company) shall be responsible for its own tax liabilities that may arise as a result of this investment or the transactions contemplated by this Agreement.

Section 5.06 Selling Restrictions. The Investor covenants that during the Commitment Period, neither the Investor nor any of its affiliates nor any entity managed by the Investor will ever (i) be in a short position with respect to shares of the Common Stock in any accounts directly or indirectly managed by the Investor or any affiliate of the Investor or any entity managed by the Investor or (ii) engage in any transaction intended to reduce the economic risk of ownership of shares of Common Stock (including, without limitation, the purchase of any option or contract to sell) that would, directly or indirectly, have an effect substantially equivalent to selling short such shares of Common Stock that are subject to, underlie or may be deliverable in satisfaction of such transaction or otherwise may be reasonably be expected to adversely affect the market price of the Common Stock. Notwithstanding the foregoing, the Investor shall have the right during any Draw Down Pricing Period to sell shares of the Company's Common Stock equal in number to the aggregate number of the Shares to be purchased pursuant to the applicable Draw Down Notice.

Section 5.07 Statutory Underwriter Status. The Investor acknowledges and agrees that, pursuant to the Commission's current interpretations of the Securities Act, the Investor will be disclosed as an "underwriter" within the meaning of the Securities Act in the Registration Statement (and amendments thereto) and in any Prospectus contained therein to the extent required by applicable law.

ARTICLE VI

COVENANTS OF THE COMPANY

The Company covenants with the Investor as follows, which covenants are for the benefit of the Investor and its permitted assignees (as defined herein):

Section 6.01 Securities. The Company shall notify the Commission and the Principal Market, if and as applicable, in accordance with their rules and regulations, of the transactions contemplated by this Agreement, and shall use commercially reasonable efforts to take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Shares, the Warrant Shares and the Blackout Shares, if any, to the Investor.

Section 6.02 Reservation of Common Stock. As of the date hereof, the Company has available and the Company shall reserve and keep available at all times, free of preemptive rights and other similar contractual rights of stockholders, shares of Common Stock for the purpose of enabling the Company to satisfy any obligation to issue the Shares in connection with all Draw Downs contemplated hereunder and the Warrant Shares. The number of shares so reserved from time to time, as theretofore increased or reduced as hereinafter provided, may be reduced by the number of shares actually delivered hereunder.

Section 6.03 Registration and Listing. During the Commitment Period, the Company shall use commercially reasonable efforts: (i) to take all action necessary to cause its Common Stock to continue to be registered under Section 12(b) or 12(g) of the Exchange Act, (ii) to comply in all respects with its reporting and filing obligations under the Exchange Act, (iii) to prevent the termination or suspension such registration, or the termination or suspension of its reporting and filing obligations under the Exchange Act or Securities Act (except as expressly permitted herein). The Company shall use commercially reasonable efforts necessary to maintain the listing and trading of its Common Stock and the listing of the Shares purchased by Investor hereunder on the Principal Market (including, without limitation, maintaining sufficient net tangible assets) and will comply in all material respects with the Company's reporting, filing and other obligations under the bylaws or rules of the NASD and the Principal Market.

Section 6.04 Registration Statement. Without the prior written consent of the Investor, the Registration Statement shall be used solely in connection with the transactions between the Company and the Investor contemplated hereby.

Section 6.05 Compliance with Laws.

(a) The Company shall comply, and cause each subsidiary to comply, with all applicable laws, rules, regulations and orders, noncompliance with which could reasonably be expected to have a Material Adverse Effect.

(b) Without the consent of its stockholders in accordance with NASD rules, the Company will not be obligated to issue, and the Investor will not be obligated to purchase, any Shares which would result in the issuance under this Agreement of Shares representing more than the applicable percentage under the rules of the NASD that would require stockholder approval of the issuance thereof.

Section 6.06 Reporting Requirements. Upon reasonable written request of the Investor during the Commitment Period, the Company shall furnish copies of the following to the Investor within three Trading Days of such request (but not sooner than filed with or submitted to the Commission):

(a) Quarterly Reports on Form 10-Q ;

(b) Annual Reports on Form 10-K;

(c) Periodic Reports on Form 8-K; and

(d) any other documents publicly furnished or submitted to the Commission.

Section 6.07 Other Financing. The Company may, without the prior written consent of the Investor, (i) establish stock option or award plans or agreements (for directors, employees, consultants and/or advisors), and issue securities thereunder, and amend such plans or agreements, including increasing the number of shares available thereunder, (ii) use equity securities to finance, or otherwise in connection with, the acquisition of one or more other companies, equipment, technologies or lines of business, (iii) issue shares of Common Stock and/or Preferred Stock in connection with the Company's option or award plans, stock purchase plans, rights plans, warrants or options, (iv) issue shares of Common Stock and/or Preferred Stock in connection with the acquisition of products, licenses, equipment or other assets and strategic partnerships or joint ventures (the primary purpose of which is not to raise equity

capital); (v) issue shares of Common and/or Preferred Stock to consultants and/or advisors as consideration for services rendered, (vi) issue and sell equity or debt securities in a public offering, (vii) issue and sell and equity or debt securities in a private placement (other than in connection with any Prohibited Transaction, (viii) issue equity securities to equipment lessors, equipment vendors, banks or similar lending institutions in connection with leases or loans, or in connection with strategic commercial or licensing transactions, (ix) issue securities in connection with any stock split, stock dividend, recapitalization, reclassification or similar event by the Company, and (x) issue shares of Common Stock to the Investor under any other agreement entered into between the Investor and the Company (each a "Permitted Transaction"). The Company shall use commercially reasonable efforts to notify the Investor in writing prior to the consummation of any material Permitted transaction described in clauses (vi), (vii) or (ix) above.

Section 6.08 Prohibited Transactions. During the term of this Agreement, the Company shall not enter into any Prohibited Transaction without the prior written consent of the Investor, which consent may be withheld at the sole discretion of the Investor. For the purposes of this Agreement, the term "Prohibited Transaction" shall refer to the issuance by the Company of any "future priced securities," which shall be deemed to mean the issuance of shares of Common Stock or securities of any type whatsoever that are, or may become, convertible or exchangeable into shares of Common Stock where the purchase, conversion or exchange price for such Common Stock is determined using any floating or otherwise adjustable discount to the market price of Common Stock, including, without limitation, pursuant to any equity line or other financing that is substantially similar to the financing provided for under this Agreement.

Section 6.09 Corporate Existence. The Company shall take all steps necessary to preserve and continue the corporate existence of the Company; provided, however, that nothing in this Agreement shall be deemed to prohibit the Company from engaging in any merger, consolidation, sale of all or substantially all of its assets or similar transaction with another Person pursuant to which such other Person is the surviving entity in the transaction.

Section 6.10 Non-Disclosure of Non-Public Information. None of the Company, its officers, directors, employees nor agents shall disclose material non-public information to the Investor, its advisors or representatives.

Section 6.11 Notice of Certain Events Affecting Registration; Suspension of Right to Request a Draw Down. Notwithstanding the provisions of Section 6.10, the Company shall immediately notify the Investor upon the occurrence of any of the following events in respect of the Registration Statement or the Prospectus related to the offer, issuance and sale of the Shares and the Warrant Shares hereunder: (i) receipt of any request for additional information by the Commission or any other federal or state governmental authority during the period of effectiveness of the Registration Statement for amendments or supplements to the Registration Statement or the Prospectus; (ii) the issuance by the Commission or any other federal or state governmental authority of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose; and (iii) receipt of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company shall not request a Draw Down during the continuation of any of the foregoing events.

Section 6.12 Amendments to the Registration Statement. When the Registration Statement is declared effective by the Commission, the Company shall not (i) file any amendment to the Registration Statement or make any amendment or supplement to the Prospectus of which

the Investor shall not previously have been advised or to which the Investor shall reasonably object after being so advised or (ii) so long as, in the reasonable opinion of counsel for the Investor, a Prospectus is required to be delivered in connection with sales of the Shares by the Investor, file any information, documents or reports pursuant to the Exchange Act without delivering a copy of such information, documents or reports to the Investor promptly following such filing.

Section 6.13 Prospectus Delivery. From time to time for such period as in the opinion of counsel for the Investor a prospectus is required by the Securities Act to be delivered in connection with sales by the Investor, the Company will expeditiously deliver to the Investor, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as the Investor may reasonably request. The Company consents to the use of the Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Securities Act and state securities laws in connection with the offering and sale of the Shares and the Warrant Shares and for such period of time thereafter as the Prospectus is required by the Securities Act to be delivered in connection with sales of the Shares and the Warrant Shares.

Section 6.14 Expectations Regarding Draw Downs. Within ten (10) calendar days after the commencement of each calendar quarter occurring subsequent to the date hereof, the Company shall notify the Investor as to its reasonable expectations as to the dollar amount it intends to raise during such calendar quarter, if any, through the issuance of Draw Down Notices. Such notification shall constitute only the Company's good faith estimate with respect to such calendar quarter and shall in no way obligate the Company to raise such amount during such calendar quarter or otherwise limit its ability to deliver Draw Down Notices during such calendar quarter. The failure by the Company to comply with this provision can be cured by the Company's notifying the Investor at any time as to its reasonable expectations with respect to the current calendar quarter.

ARTICLE VII

CONDITIONS TO THE OBLIGATION OF THE INVESTOR TO ACCEPT A DRAW DOWN

The obligation of the Investor hereunder to accept a Draw Down Notice and to acquire and pay for the Shares in accordance therewith is subject to the satisfaction or waiver, at each Condition Satisfaction Date, of each of the conditions set forth below. The conditions are for the Investor's sole benefit and may be waived by the Investor at any time in its sole discretion. As used in this Agreement, the term "Condition Satisfaction Date" shall mean, with respect to each Draw Down, the date on which the applicable Draw Down Notice is delivered to the Investor and each Settlement Date in respect of the applicable Draw Down Pricing Period.

Section 7.01 Accuracy of the Company's Representations and Warranties. Each of the representations and warranties of the Company shall be true and correct in all material respects as of the date when made as though made at that time except for representations and warranties that are expressly made as of a particular date.

Section 7.02 Performance by the Company. The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement, the Registration Rights Agreement and the Warrant to be performed, satisfied or complied with by the Company.

Section 7.03 Compliance with Law. The Company shall have complied in all material respects with all applicable federal, state and local governmental laws, rules, regulations and ordinances in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby.

Section 7.04 Effective Registration Statement. Upon the terms and subject to the conditions as set forth in the Registration Rights Agreement, the Registration Statement shall have previously become effective and shall remain effective and (i) neither the Company nor the Investor shall have received notice that the Commission has issued or intends to issue a stop order with respect to the Registration Statement or that the Commission otherwise has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently, or intends or has threatened to do so (unless the Commission's concerns have been addressed and the Investor is reasonably satisfied that the Commission no longer is considering or intends to take such action), and (ii) no other suspension of the use or withdrawal of the effectiveness of the Registration Statement or the Prospectus shall exist.

Section 7.05 No Knowledge. The Company shall have no Knowledge of any event more likely than not to have the effect of causing the Registration Statement with respect to the resale of the Registrable Securities by the Investor to be suspended or otherwise ineffective (which event is more likely than not to occur within fifteen Trading Days following the Trading Day on which a Draw Down Notice is delivered).

Section 7.06 No Suspension. Trading in the Company's Common Stock shall not have been suspended by the Commission, the Principal Market or the NASD and trading in securities generally as reported on the Principal Market shall not have been suspended or limited.

Section 7.07 No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

Section 7.08 No Proceedings or Litigation. No action, suit or proceeding before any arbitrator or any governmental authority shall have been commenced, and no investigation by any governmental authority shall have been threatened, against the Company or any subsidiary, or any of the officers, directors or affiliates of the Company or any subsidiary seeking to enjoin, prevent or change the transactions contemplated by this Agreement.

Section 7.09 Section 16 Limitation. On each Settlement Date, the number of Shares then to be purchased by the Investor shall not exceed the number of such shares that, when aggregated with all other Registrable Securities then owned by the Investor beneficially or deemed beneficially owned by the Investor, would result in the Investor owning more than 9.9% of all of such Common Stock as would be outstanding on such Settlement Date, as determined in accordance with Section 16 of the Exchange Act. For purposes of this Section 7.09, in the event that the amount of Common Stock outstanding as determined in accordance with Section 16 of the Exchange Act and the regulations promulgated thereunder is greater on a Settlement Date than on the date upon which the Draw Down Notice associated with such Settlement Date is given, the amount of Common Stock outstanding on such Settlement Date shall govern for purposes of determining whether the Investor, when aggregating all purchases of Common Stock made pursuant to this Agreement and, if any, Warrant Shares and Blackout Shares, would own more than 9.9% of the Common Stock following such Settlement Date.

Section 7.10 Sufficient Shares Registered for Resale. The Company shall have sufficient Shares, calculated using the closing trade price of the Common Stock as of the Trading Day immediately preceding such Draw Down Notice, registered under the Registration Statement to issue and sell such Shares in accordance with such Draw Down Notice.

Section 7.11 Warrant. The Warrant shall have been duly executed, delivered and issued to the Investor, and the Company shall not be in default in any material respect under any of the provisions thereof, provided that any refusal by or failure of the Company to issue and deliver Warrant Shares in respect of any exercise (in whole or in part) thereof shall be deemed to be material for the purposes of this Section 7.11.

Section 7.12 Opinion of Counsel. The Investor shall have received an opinion of counsel to the Company, dated as of the Effective Date, in form and substance reasonably satisfactory to the Investor and its counsel.

ARTICLE VIII

LEGENDS

Section 8.01 Legends. Unless otherwise provided below, each certificate representing Registrable Securities will bear the following legend (the "Legend"):

> THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE SECURITIES LAWS AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED, HYPOTHECATED OR OTHERWISE DISPOSED OF, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO A TRANSACTION THAT IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS CERTIFICATE IS THE BENEFICIARY OF CERTAIN OBLIGATIONS OF THE COMPANY SET FORTH IN A COMMON STOCK PURCHASE AGREEMENT BETWEEN CELLEGY PHARMACEUTICALS, INC. AND KINGSBRIDGE CAPITAL LIMITED DATED AS OF JANUARY 16, 2004. A COPY OF THE PORTION OF THE AFORESAID AGREEMENT EVIDENCING SUCH OBLIGATIONS MAY BE OBTAINED FROM THE COMPANY'S EXECUTIVE OFFICES.

As soon as practicable after the execution and delivery hereof, but in any event within five (5) Trading Days hereafter, the Company shall issue to the transfer agent for its Common Stock (and to any substitute or replacement transfer agent for its Common Stock upon the Company's appointment of any such substitute or replacement transfer agent) instructions, with a copy to the Investor. Such instructions shall be irrevocable by the Company from and after the date hereof or from and after the issuance thereof to any such substitute or replacement transfer agent, as the case may be, except as otherwise expressly provided in the Registration Rights Agreement. It is the intent and purpose of such instructions, as provided therein, to require the transfer agent for the Common Stock from time to time upon transfer of Registrable Securities by the Investor to

issue certificates evidencing such Registrable Securities free of the Legend during the following periods and under the following circumstances and without consultation by the transfer agent with the Company or its counsel and without the need for any further advice or instruction or documentation to the transfer agent by or from the Company or its counsel or the Investor, unless an opinion of Investor's counsel is reasonably required by the transfer agent or the Company:

(a) At any time after the Effective Date to the extent accompanied by a notice requesting the issuance of certificates free of the Legend; provided that (i) the Company is reasonably able to confirm to the transfer agent that the Registration Statement shall then be effective and (ii) if reasonably requested by the transfer agent the Investor confirms to the transfer agent that the Investor has complied with the prospectus delivery requirement under the Securities Act.

(b) At any time upon any surrender of one or more certificates evidencing Registrable Securities that bear the Legend, to the extent accompanied by a notice requesting the issuance of new certificates free of the Legend to replace those surrendered and containing representations that (i) the Investor is permitted to dispose of such Registrable Securities without limitation as to amount or manner of sale pursuant to Rule 144(k) under the Securities Act and there is no requirement for the Investor to deliver a prospectus or (ii) the Investor has sold, pledged or otherwise transferred or agreed to sell, pledge or otherwise transfer such Registrable Securities in a manner other than pursuant to an effective registration statement, to a transferee who shall upon such transfer be entitled to freely tradeable securities.

Section 8.02 No Other Legend or Stock Transfer Restrictions. No legend other than the one specified in Section 8.01 has been or shall be placed on the share certificates representing the Common Stock issued to the Investor and no instructions or "stop transfer orders," so called "stock transfer restrictions," or other restrictions have been or shall be given to the Company's transfer agent with respect thereto other than as expressly set forth in this Article VIII.

ARTICLE IX

TERMINATION

Section 9.01 Term. Unless otherwise terminated in accordance with Section 9.02 below, this Agreement shall terminate upon the expiration of the Commitment Period.

Section 9.02 Other Termination.

(a) The Investor may terminate this Agreement upon (x) one (1) day's notice if the Company enters into any Prohibited Transaction as set forth in Section 6.08 without the Investor's prior written consent, or (y) one (1) day's notice within ten (10) Trading Days after the Investor obtains actual knowledge that an event resulting in a Material Adverse Effect has occurred; provided, however, that the Investor shall be deemed to possess such actual knowledge within five (5) Trading Days after such event has been publicly disclosed by the Company in accordance with its periodic reporting requirements under the Exchange Act.

(b) The Investor may terminate this Agreement upon one (1) day's notice to the Company at any time in the event that the Registration Statement is not declared effective in accordance with the Registration Rights Agreement.

(c) The Company may terminate this Agreement upon one (1) day's notice; provided, however, that the Company shall not terminate this Agreement pursuant to this Section 9.02(c) during any Draw Down Pricing Period; provided further; that, in the event of any termination of this Agreement by the Company hereunder, so long as the Investor owns Shares purchased hereunder and/or Warrant Shares, unless all of such shares of Common Stock may be resold by the Investor without registration and without any time, volume or manner limitations pursuant to Rule 144(k) (or any similar provision then in effect) under the Securities Act, the Company shall not suspend or withdraw the Registration Statement or otherwise cause the Registration Statement to become ineffective, or voluntarily delist the Common Stock from, the Principal Market without listing the Common Stock on another Principal Market.

(d) Each of the parties hereto may terminate this Agreement upon one (1) day's notice if the other party has breached a material representation, warranty or covenant to this Agreement and such breach is not remedied within ten (10) Trading Days after notice of such breach is delivered to the breaching party.

(e) The obligation of the Investor to purchase shares of Common Stock shall terminate permanently in the event that there shall occur any stop order or suspension of effectiveness of the Registration Statement for an aggregate of thirty (30) calendar days during the Commitment Period.

Section 9.03 Effect of Termination.

(a) In the event of termination by the Company or the Investor, written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement shall be terminated without further action by either party. If this Agreement is terminated as provided in Section 9.01 or 9.02 herein, this Agreement shall become void and of no further force and effect, except as provided in Section 11.13. Nothing in this Section 9.03 shall be deemed to release the Company or the Investor from any liability for any breach under this Agreement, or to impair the rights of the Company and the Investor to compel specific performance by the other party of its obligations under this Agreement.

(b) In the event that the Company fails to issue and sell Common Stock to the Investor for an amount (in aggregate Draw Down Amounts) at least equal to $2.5 million under this Agreement during the Commitment Period, on the first Trading Day following the expiration of the Commitment Period, the Company shall pay to Investor by wire transfer of immediately available funds to an account designated by the Investor an amount equal to $250,000; provided, however, that in the event that the New Market Cap is higher than the Old Market Cap as of the date the Company files the Registration Statement with the Commission, each of the $2.5 million and $250,000 amounts specified above shall be increased by a multiple equal to the Market Cap Increase Quotient. The parties hereto acknowledge and agree that the sum payable under this Section 9.03(b) shall represent liquidated damages and not a penalty. The parties further acknowledge that such amount (i) bears a reasonable relation to the commitment fee that the Investor would have, in light of its reasonable investment expectations, otherwise charged the Company in consideration for the Investor's commitment to purchase Common Stock hereunder and (ii) is not plainly or grossly disproportionate to the probable loss likely to be incurred by the Investor in connection with the failure by the Company to issue and sell Common Stock to the Investor for an amount (in aggregate Draw Down Amounts) at least equal to the amount specified above under this Agreement during the Commitment Period.

ARTICLE X

INDEMNIFICATION

Section 10.01 Indemnification.

(a) Except as otherwise provided in this Article X, unless disputed as set forth in Section 10.02, the Company agrees to indemnify, defend and hold harmless the Investor and its affiliates and their respective officers, directors, agents, employees, subsidiaries, partners, members and controlling persons (each, an "Investor Indemnified Party"), to the fullest extent permitted by law from and against any and all Damages directly resulting from or directly arising out of any breach of any representation or warranty, covenant or agreement by the Company in this Agreement, the Registration Rights Agreement or the Warrant; provided, however, that the Company shall not be liable under this Article X to an Investor Indemnified Party to the extent that such Damages resulted or arose from the breach by an Investor Indemnified Party of any representation, warranty, covenant or agreement of an Investor Indemnified Party contained in this Agreement, the Registration Rights Agreement or the Warrant or the gross negligence, recklessness, willful misconduct or bad faith of an Investor Indemnified Party. The parties intend that any Damages subject to indemnification pursuant to this Article X will be net of insurance proceeds (which the Investor Indemnified Party agrees to use commercially reasonable efforts to recover). Accordingly, the amount which the Company is required to pay to any Investor Indemnified Party hereunder (a "Company Indemnity Payment") will be reduced by any insurance proceeds actually recovered by or on behalf of any Investor Indemnified Party in reduction of the related Damages. In addition, if an Investor Indemnified Party receives a Company Indemnity Payment required by this Article X in respect of any Damages and subsequently receives any such insurance proceeds, then the Investor Indemnified Party will pay to the Company an amount equal to the Company Indemnity Payment received less the amount of the Company Indemnity Payment that would have been due if the insurance proceeds had been received, realized or recovered before the Company Indemnity Payment was made.

(b) Except as otherwise provided in this Article X, unless disputed as set forth in Section 10.02, the Investor agrees to indemnify, defend and hold harmless the Company and its affiliates and their respective officers, directors, agents, employees, subsidiaries, partners, members and controlling persons (each, a "Company Indemnified Party"), to the fullest extent permitted by law from and against any and all Damages directly resulting from or directly arising out of any breach of any representation or warranty, covenant or agreement by the Investor in this Agreement, the Registration Right Agreement or the Warrant; provided, however, that the Investor shall not be liable under this Article X to a Company Indemnified Party to the extent that such Damages resulted or arose from the breach by a Company Indemnified Party of any representation, warranty, covenant or agreement of a Company Indemnified Party contained in this Agreement, the Registration Right Agreement or the Warrant or gross negligence, recklessness, willful misconduct or bad faith of a Company Indemnified Party. The parties intend that any Damages subject to indemnification pursuant to this Article X will be net of insurance proceeds (which the Company agrees to use commercially reasonable efforts to recover). Accordingly, the amount which the Investor is required to pay to any Company Indemnified Party hereunder (an "Investor Indemnity Payment") will be reduced by any insurance proceeds theretofore actually recovered by or on behalf of any Company Indemnified Party in reduction of the related Damages. In addition, if a Company Indemnified Party receives a Investor Indemnity Payment required by this Article X in respect of any Damages and subsequently receives insurance such proceeds, then the Company Indemnified Party will pay to the Investor an amount equal to the Investor Indemnity Payment received less the amount of the Investor Indemnity

Payment that would have been due if the insurance proceeds had been received, realized or recovered before the Investor Indemnity Payment was made.

Section 10.02 Notification of Claims for Indemnification. Each party entitled to indemnification under this Article X (an "Indemnified Party") shall, promptly after the receipt of notice of the commencement of any claim against such Indemnified Party in respect of which indemnity may be sought from the party obligated to indemnify such Indemnified Party under this Article X (the "Indemnifying Party"), notify the Indemnifying Party in writing of the commencement thereof. Any such notice shall describe the claim in reasonable detail. The failure of any Indemnified Party to so notify the Indemnifying Party of any such action shall not relieve the Indemnifying Party from any liability which it may have to such Indemnified Party (a) other than pursuant to this Article X or (b) under this Article X unless, and only to the extent that, such failure results in the Indemnifying Party's forfeiture of substantive rights or defenses or the Indemnifying Party is prejudiced by such delay. The procedures listed below shall govern the procedures for the handling of indemnification claims.

(a) Any claim for indemnification for Damages that do not result from a Third Party Claim as defined in the following paragraph, shall be asserted by written notice given by the Indemnified Party to the Indemnifying Party. Such Indemnifying Party shall have a period of thirty (30) days after the receipt of such notice within which to respond thereto. If such Indemnifying Party does not respond within such thirty (30) day period, such Indemnifying Party shall be deemed to have refused to accept responsibility to make payment as set forth in Section 10.01. If such Indemnifying Party does not respond within such thirty (30) day period or rejects such claim in whole or in part, the Indemnified Party shall be free to pursue such remedies as specified in this Agreement, including the dispute resolution provisions set forth in Section 10.03 below.

(b) If an Indemnified Party shall receive notice or otherwise learn of the assertion by a person or entity not a party to this Agreement of any threatened legal action or claim (collectively a "Third Party Claim"), with respect to which an Indemnifying Party may be obligated to provide indemnification, the Indemnified Party shall give such Indemnifying Party written notice thereof within twenty (20) days after becoming aware of such Third Party Claim.

(c) An Indemnifying Party may elect to defend (and, unless the Indemnifying Party has specified any reservations or exceptions, to seek to settle or compromise) at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any Third Party Claim. Within thirty (30) days after the receipt of notice from an Indemnified Party (or sooner if the nature of such Third Party Claim so requires), the Indemnifying Party shall notify the Indemnified Party whether the Indemnifying Party will assume responsibility for defending such Third Party Claim, which election shall specify any reservations or exceptions. If such Indemnifying Party does not respond within such thirty (30) day period or rejects such claim in whole or in part, the Indemnified Party shall be free to pursue such remedies as specified in this Agreement, including the dispute resolution provisions set forth in Section 10.03 below. In case any such Third Party Claim shall be brought against any Indemnified Party, and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to assume the defense thereof at its own expense, with counsel satisfactory to such Indemnified Party in its reasonable judgment; provided, however, that any Indemnified Party may, at its own expense, retain separate counsel to participate in such defense at its own expense. Notwithstanding the foregoing, in any Third Party Claim in which both the Indemnifying Party, on the one hand, and an Indemnified Party, on the other hand, are, or are reasonably likely to become, a party, such Indemnified Party shall have the right to employ separate counsel and to

control its own defense of such claim if, in the reasonable opinion of counsel to such Indemnified Party, either (x) one or more significant defenses are available to the Indemnified Party that are not available to the Indemnifying Party or (y) a conflict or potential conflict exists between the Indemnifying Party, on the one hand, and such Indemnified Party, on the other hand, that would make such separate representation advisable; provided, however, that in such circumstances the Indemnifying Party (i) shall not be liable for the fees and expenses of more than one counsel to all Indemnified Parties and (ii) shall reimburse the Indemnified Parties for such reasonable fees and expenses of such counsel incurred in any such Third Party Claim, as such expenses are incurred, provided that the Indemnified Parties agree to repay such amounts if it is ultimately determined that the Indemnifying Party was not obligated to provide indemnification under this Article X. The Indemnifying Party agrees that it will not, without the prior written consent of the Indemnified Party, settle, compromise or consent to the entry of any judgment in any pending or threatened claim relating to the matters contemplated hereby (if any Indemnified Party is a party thereto or has been actually threatened to be made a party thereto) unless such settlement, compromise or consent includes an unconditional release of such Indemnified Party from all liability arising or that may arise out of such claim. The Indemnifying Party shall not be liable for any settlement of any claim effected against an Indemnified Party without the Indemnifying Party's written consent, which consent shall not be unreasonably withheld, conditioned or delayed. The rights accorded to an Indemnified Party hereunder shall be in addition to any rights that any Indemnified Party may have at common law, by separate agreement or otherwise (subject, however, to the provisions of Section 10.03 below); provided, however, that notwithstanding the foregoing or anything to the contrary contained in this Agreement, nothing in this Article X (other than Section 10.03) shall restrict or limit any rights that any Indemnified Party may have to seek equitable relief.

Section 10.03 Dispute Resolution. Any dispute under this Agreement, the Registration Rights Agreement or the Warrant shall be submitted to arbitration (including, without limitation, pursuant to this Article X) and shall be finally and conclusively determined by the decision of a board of arbitration consisting of three (3) members (the "Board of Arbitration") selected as hereinafter provided. Each of the Indemnified Party and the Indemnifying Party shall select one (1) member and the third member shall be selected by mutual agreement of the other members, or if the other members fail to reach agreement on a third member within twenty (20) days after their selection, such third member shall thereafter be selected by the American Arbitration Association upon application made to it for such purpose by the Indemnified Party. The Board of Arbitration shall meet on consecutive business days in San Francisco, California or such other place as a majority of the members of the Board of Arbitration determines more appropriate, and shall reach and render a decision in writing (concurred in by a majority of the members of the Board of Arbitration) with respect to the amount, if any, which the Indemnifying Party is required to pay to the Indemnified Party in respect of a claim filed by the Indemnified Party. In connection with rendering its decisions, the Board of Arbitration shall adopt and follow such rules and procedures as a majority of the members of the Board of Arbitration deems necessary or appropriate. To the extent practical, decisions of the Board of Arbitration shall be rendered no more than thirty (30) calendar days following commencement of proceedings with respect thereto. The Board of Arbitration shall cause its written decision to be delivered to the Indemnified Party and the Indemnifying Party. Any decision made by the Board of Arbitration (either prior to or after the expiration of such thirty (30) calendar day period) shall be final, binding and conclusive on the Indemnified Party and the Indemnifying Party and entitled to be enforced to the fullest extent permitted by law and entered in any court of competent jurisdiction. Each party to any arbitration shall bear its own expense in relation thereto, including but not limited to such party's attorneys' fees, if any, and the expenses and fees of the Board of Arbitration shall be paid initially one-half by each of the Indemnifying Party and the Indemnified

Party, but then apportioned between the Indemnifying Party and the Indemnified Party in the same proportion as the portion of the related claim determined by the Board of Arbitration to be payable to the Indemnified Party bears to the portion of such claim determined not to be so payable.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Fees and Expenses. The Company shall be solely responsible for (i) all reasonable attorneys fees and expenses incurred by the Investor in connection with the preparation, negotiation, execution and delivery of this Agreement, the Registration Rights Agreement and the Warrant, (ii) all reasonable fees and expenses incurred by the Investor in connection with any amendments, modifications or waivers of this Agreement or incurred in connection with the Investor's enforcement of this Agreement, including, without limitation, all reasonable attorneys fees and expenses, (iii) all reasonable due diligence expenses incurred by the Investor during the term of this Agreement up to aggregate maximum amount of $10,000 per calendar quarter, and (iv) all stamp or other similar taxes and duties, if any, levied in connection with issuance of the Shares pursuant hereto; provided, however, that in each of the above instances the Investor shall provide customary supporting invoices or similar documentation in reasonable detail describing such expenses. The Investor shall reimburse all reasonable due diligence expenses incurred by the Company in connection with this transaction prior to the date of this Agreement.

Section 11.02 Reporting Entity for the Common Stock. The reporting entity relied upon for the determination of the trading price or trading volume of the Common Stock on any given Trading Day for the purposes of this Agreement shall be Bloomberg, L.P. or any successor thereto. The written mutual consent of the Investor and the Company shall be required to employ any other reporting entity.

Section 11.03 Brokerage. Each of the parties hereto represents that it has had no dealings in connection with this transaction with any finder or broker who will demand payment of any fee or commission from the other party. The Company on the one hand, and the Investor, on the other hand, agree to indemnify the other against and hold the other harmless from any and all liabilities to any Persons claiming brokerage commissions or finder's fees on account of services purported to have been rendered on behalf of the indemnifying party in connection with this Agreement or the transactions contemplated hereby.

Section 11.04 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice given in accordance herewith. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully

prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard.
Suite 200
South San Francisco, California 94080
Telephone: (650) 616-2200
Facsimile: (650) 616-2222
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

Weintraub Genshlea Chediak & Sproul
400 Capitol Mall, Eleventh Floor
Sacramento, CA 95814
Telephone: (916) 558-6000
Facsimile: (916) 446-1611
Attention: C. Kevin Kelso, Esq.

if to the Investor:

Kingsbridge Capital Limited/ c/o Kingsbridge Corporate
Services Limited
Main Street
Kilcullen, County Kildare
Republic of Ireland
Telephone: 011-353-45-481-811
Facsimile: 011-353-45-482-003
Attention: Adam Gurney, Director

with a copy (which shall not constitute notice) to:

Keith M. Andruschak, Esq.
Clifford Chance US LLP
200 Park Avenue
New York, NY 10166
Telephone: (212) 878-8000
Facsimile: (212) 878-8375

Either party hereto may from time to time change its address or facsimile number for notices under this Section by giving at least ten (10) days' prior written notice of such changed address or facsimile number to the other party hereto.

Section 11.05 Assignment. Neither this Agreement nor any rights of the Investor or the Company hereunder may be assigned by either party to any other Person. Notwithstanding the foregoing, (a) the provisions of this Agreement shall inure to the benefit of, and be enforceable by, any private transferee of any of the Common Stock purchased or acquired by the Investor hereunder with respect to the Common Stock held by such Person, (b) the Investor's interest in this Agreement may be assigned at any time, in whole or in part, to any other Person or entity (including any affiliate of the Investor) upon the prior written consent of the Company, which consent shall not to be unreasonably withheld, and (c) the Company may assign this Agreement at any time in connection with a sale or acquisition of the Company, whether by merger, consolidation, sale of all or substantially all of the Company's assets, or similar transaction,

without the consent of the Investor; provided, however, that the successor or acquiring Person agrees in writing to assume all of the Company's rights and obligations under this Agreement.

Section 11.06 Amendment; No Waiver. No party shall be liable or bound to any other party in any manner by any warranties, representations or covenants except as specifically set forth in this Agreement or therein. Except as expressly provided in this Agreement, neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by both parties hereto. The failure of the either party to insist on strict compliance with this Agreement, or to exercise any right or remedy under this Agreement, shall not constitute a waiver of any rights provided under this Agreement, nor estop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising such a right or remedy in the future.

Section 11.07 Entire Agreement. This Agreement, the Registration Rights Agreement and the Warrant set forth the entire agreement and understanding of the parties relating to the subject matter hereof and supersedes all prior and contemporaneous agreements, negotiations and understandings between the parties, both oral and written, relating to the subject matter hereof.

Section 11.08 Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision; provided that, such severability shall be ineffective if it materially changes the economic benefit of this Agreement to any party.

Section 11.09 Title and Subtitles. The titles and subtitles used in this Agreement are used for the convenience of reference and are not to be considered in construing or interpreting this Agreement.

Section 11.10 Counterparts. This Agreement may be executed in multiple counterparts, each of which may be executed by less than all of the parties and shall be deemed to be an original instrument which shall be enforceable against the parties actually executing such counterparts and all of which together shall constitute one and the same instrument.

Section 11.11 Choice of Law. This Agreement shall be construed under the laws of the State of New York.

Section 11.12 Specific Enforcement, Consent to Jurisdiction.

(a) The Company and the Investor acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof or thereof, this being in addition to any other remedy to which any of them may be entitled by law or equity.

(b) Subject to Section 10.03, each of the Company and the Investor (i) hereby irrevocably submits to the jurisdiction of the United States District Court and other courts of the United States sitting in the State of New York for the purposes of any suit, action or proceeding arising out of or relating to this Agreement and (ii) hereby waives, and agrees not to assert in any such suit, action or proceeding, any claim that it is not personally subject to the

jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. Each of the Company and the Investor consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this Section shall affect or limit any right to serve process in any other manner permitted by law.

Section 11.13 Survival. The representations and warranties of the Company and the Investor contained in Articles IV and V and the covenants contained in Article V and Article VI shall survive the execution and delivery hereof and the Closing until the termination of this Agreement, and the agreements and covenants set forth in Article IX and Article X of this Agreement shall survive the execution and delivery hereof and the Closing hereunder.

Section 11.14 Publicity. Prior to the Closing, neither the Company nor the Investor shall issue any press release or otherwise make any public statement or announcement with respect to this Agreement or the transactions contemplated hereby or the existence of this Agreement. In the event the Company is required by law, based upon an opinion of the Company's counsel, to issue a press release or otherwise make a public statement or announcement with respect to this Agreement prior to the Closing, the Company shall consult with the Investor on the form and substance of such press release. Promptly after the Closing, each party may issue a press release or otherwise make a public statement or announcement with respect to this Agreement or the transactions contemplated hereby or the existence of this Agreement; provided that, prior to issuing any such press release, making any such public statement or announcement, the party wishing to make such release, statement or announcement consults and cooperates in good faith with the other party in order to formulate such press release, public statement or announcement in form and substance reasonably acceptable to both parties.

Section 11.15 Further Assurances. From and after the date of this Agreement, upon the request of the Investor or the Company, each of the Company and the Investor shall execute and deliver such instruments, documents and other writings as may be reasonably necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officer as of the date first written.

KINGSBRIDGE CAPITAL LIMITED

By: _____
Name: Valentine O'Donoghue
Title: Director

CELLEGY PHARMACEUTICALS, INC.

By: _____
Name:
Title:

Schedule 4.10

Litigation

Exhibit A
Form of Registration Rights Agreement

Exhibit B
Form of Warrant

Exhibit C
Officer's Certificate

I, [NAME OF OFFICER], do hereby certify to Kingsbridge Capital Limited (the "Investor"), with respect to the common stock of Cellegy Pharmaceuticlas, Inc. (the "Company") issuable in connection with the Draw Down Notice, dated _____ (the "Notice") attached hereto and delivered pursuant to Article II of the Common Stock Purchase Agreement, dated January 16, 2004 (the "Agreement"), by and between the Company and the Investor, as follows:

1. I am the duly elected [OFFICER] of the Company.

2. The representations and warranties of the Company set forth in Article IV of the Agreement are true and correct in all material respects as though made on and as of the date hereof (except for such representations and warranties that are made as of a particular date).

3. The Company has performed in all material respects all covenants and agreements to be performed by the Company on or prior to the date hereof related to the Notice and has satisfied each of the conditions to the obligation of the Investor set forth in Article VII of the Agreement.

The undersigned has executed this Certificate this ____ day of _____, 200[_].

Name:
Title:

Exhibit 10.10

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of January 16, 2004, is by and between CELLEGY PHARMACEUTICALS, INC. (the "Company") and KINGSBRIDGE CAPITAL LIMITED (the "Investor").

WHEREAS, the Company and the Investor have entered into that certain Common Stock Purchase Agreement, dated as of the date hereof (the "Purchase Agreement"), pursuant to which the Company may issue, from time to time, to the Investor up to 3,740,000 shares of Common Stock;

WHEREAS, pursuant to the terms of, and in partial consideration for the Investor entering into, the Purchase Agreement, the Company has issued to the Investor a warrant, exercisable from time to time within five (5) years following the six-month anniversary of the date of issuance (the "Warrant") for the purchase of an aggregate of up to 260,000 shares of Common Stock at a price specified in such Warrant;

WHEREAS, pursuant to the terms of, and in partial consideration for, the Investor's agreement to enter into the Purchase Agreement, the Company has agreed to provide the Investor with certain registration rights with respect to the Registrable Securities (as defined in the Purchase Agreement) as set forth herein;

NOW, THEREFORE, in consideration of the premises, the representations, warranties, covenants and agreements contained herein, in the Warrant, and in the Purchase Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, intending to be legally bound hereby, the parties hereto agree as follows (capitalized terms used herein and not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement):

ARTICLE I
REGISTRATION RIGHTS

Section 1.1. REGISTRATION STATEMENT.

(a) Filing of the Registration Statement. Upon the terms and subject to the conditions set forth in this Agreement, the Company shall file with the Commission, within five (5) days after the date by which the Company's annual report on Form 10-K with respect to the year ended December 31, 2003 is required to be filed with the Commission, a registration statement on Form S-1 under the Securities Act or such other form as deemed appropriate by counsel to the Company for the registration for the resale by the Investor of the Registrable Securities (the "Registration Statement").

(b) Effectiveness of the Registration Statement. The Company shall use commercially reasonable efforts (i) to have the Registration Statement declared effective by the Commission as soon as reasonably practicable, but in any event no later than thirty-five (35) calendar days, or eighty (80) calendar days in the event that the Commission reviews the Registration Statement, following the date that the Registration Statement is filed and (ii) to ensure that the Registration Statement remains in effect throughout the term of this Agreement as set forth in Section 4.2, subject to the terms and conditions of this Agreement.

(c) Regulatory Disapproval. The contemplated effective date for the Registration Statement as described in Section 1.1(b) shall be extended without default or liquidated damages hereunder or under the Purchase Agreement in the event that the Company's failure to obtain the effectiveness of the Registration Statement on a timely basis results solely from the Commission's disapproval of the structure of the transactions contemplated by the Purchase Agreement. In such event, the parties agree to cooperate with one another in good faith to arrive at a resolution acceptable to the Commission.

(d) Failure to Maintain Effectiveness of Registration Statement. In the event the Company fails to maintain the effectiveness of the Registration Statement (or the Prospectus) throughout the period set forth in Section 4.2, other than temporary suspensions as set forth in Section 1.1(e) or 2.1(n), and the Investor holds any Registrable Securities at any time during the period of such ineffectiveness (an "Ineffective Period"), the Company shall pay to the Investor in immediately available funds into an account designated by the Investor an amount equal to the product of (x) the total number of Registrable Securities issued to the Investor under the Purchase Agreement and owned by the Investor at any time during such Ineffective Period and (y) the result, if greater than zero, obtained by subtracting the VWAP on the Trading Day immediately following the last day of such Ineffective Period from the VWAP on the Trading Day immediately preceding the day on which any such Ineffective Period began; provided, however, that the foregoing payments shall not apply in respect of Registrable Securities that are otherwise freely tradable by the Investor.

(e) Deferral or Suspension During a Blackout Period. Notwithstanding the provisions of Section 1.1 (d), if in the good faith judgment of the Company, following consultation with legal counsel, it would be detrimental to the Company or its stockholders for the Registration Statement to be filed or for resales of Registrable Securities to be made pursuant to the Registration Statement due to (i) the existence of a material development or potential material development involving the Company that the Company would be obligated to disclose in the Registration Statement, which disclosure would be premature or otherwise inadvisable at such time or would have a Material Adverse

Effect on the Company or its stockholders, or (ii) a filing of a Company-initiated registration of any class of its equity securities, which, in the good faith judgment of the Company, would adversely effect or require premature disclosure of the filing of such Company-initiated registration (notice thereof, a "Blackout Notice"), the Company shall have the right to (A) immediately defer such filing for a period of not more than sixty (60) days beyond the date by which such Registration Statement was otherwise required hereunder to be filed or (B) suspend use of such Registration Statement for a period of not more than thirty (30) days (any such deferral or suspension period, a "Blackout Period"). The Investor acknowledges that it would be seriously detrimental to the Company and its stockholders for such Registration Statement to be filed (or remain in effect) during a Blackout Period and therefore essential to defer such filing (or suspend the use thereof) during such Blackout Period and agrees to cease any disposition of the Registrable Securities during such Blackout Period. The Company may not utilize any of its rights under this Section 1.1(e) to defer the filing of a Registration Statement (or suspend its effectiveness) more than six (6) times in any twelve (12) month period. In the event that, within fifteen (15) Trading Days following any Settlement Date, the Company gives a Blackout Notice to the Investor and the VWAP on the Trading Day immediately preceding such Blackout Period ("Old VWAP") is greater than the VWAP on the first Trading Day following such Blackout Period that the Investor may sell its Registrable Securities pursuant to an effective Registration Statement ("New VWAP"), then the Company shall pay to the Investor, by wire transfer of immediately funds to an account designated by the Investor, the "Blackout Amount." For the purposes of this Agreement, Blackout Amount means a percentage equal to: (1) seventy-five percent (75%) if such Blackout Notice is delivered prior to the fifth (5th)Trading Day following such Settlement Date; (2) fifty percent (50%) if such Blackout Notice is delivered on or after the fifth (5th)Trading Day following such Settlement Date, but prior to the tenth (10th) Trading Day following such Settlement Date; (3) twenty-five percent (25%) if such Blackout Notice is delivered on or after the tenth (10th) Trading Day following such Settlement Date, but prior to the fifteenth (15th) Trading Day following such Settlement Date; and (4) zero percent (0%) thereafter of: the product of (i) the number of Registrable Securities purchased by the Investor pursuant to the most recent Draw Down and actually held by the Investor immediately prior to the Blackout Period and (ii) the

result obtained by subtracting the New VWAP from the Old VWAP. For any Blackout Period in respect of which a Blackout Amount becomes due and payable, rather than paying the Blackout Amount, the Company may at is sole discretion, issue to the Investor shares of Common Stock with an aggregate market value determined as of the first Trading Day following such Blackout Period equal to the Blackout Amount ("Blackout Shares")..

(f) Liquidated Damages. The Company and the Investor hereto acknowledge and agree that the amounts payable under Sections 1.1(d) and 1.1(e) and the Blackout Shares deliverable under Section 1.1(e) above shall constitute liquidated damages and not penalties. The parties further acknowledge that (i) the amount of loss or damages likely to be incurred by the Investor is incapable or is difficult to precisely estimate, (ii) the amounts specified in such subsections bear a reasonable proportion and are not plainly or grossly disproportionate to the probable loss likely to be incurred in connection with any failure by the Company to obtain or maintain the effectiveness of the Registration Statement, (iii) one of the reasons for the Company and the Investor reaching an agreement as to such amounts was the uncertainty and cost of litigation regarding the question of actual damages, and (iv) the Company and the Investor are sophisticated business parties and have been represented by sophisticated and able legal and financial counsel and negotiated this Agreement at arm's length.

(g) Additional Registration Statements. In the event and to the extent that the Registration Statement fails to register a sufficient amount of Common Stock necessary for the Company to issue and sell to the Investor and the Investor to purchase from the Company all of the Registrable Securities to be issued, sold and purchased under the Purchase Agreement and the Warrant, the Company shall prepare and file with the Commission an additional registration statement or statements in order to effectuate the purpose of this Agreement, the Purchase Agreement, and the Warrant.

ARTICLE II
REGISTRATION PROCEDURES

Section 2.1. FILINGS; INFORMATION. The Company shall effect the registration with respect to the sale of the Registrable Securities by the Investor in accordance with the intended methods of disposition thereof. Without limiting the foregoing, the Company in each such case will do the following as expeditiously as possible, but in no event later than the deadline, if any, prescribed therefor in this Agreement:

(a) Subject to Section 1.1(e), the Company shall (i) prepare and file with the Commission the Registration Statement; (ii) use commercially reasonable efforts to cause such filed Registration Statement to become and to remain effective (pursuant to Rule 415 under the Securities Act or otherwise); (iii) prepare and file with the Commission such amendments and supplements to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep such Registration Statement effective for the time period prescribed by Section 4.2 and in order to effectuate the purpose of this Agreement, the Purchase Agreement, and the Warrant; and (iv) comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement during such period in accordance with the intended methods of disposition by the Investor set forth in such Registration Statement; provided, however, that the Investor shall be responsible for the delivery of the Prospectus to the Persons to whom the Investor sells the Shares and the Warrant Shares, and the Investor agrees to dispose of Registrable Securities in compliance with the plan of distribution described in the Registration Statement and otherwise in compliance with applicable federal and state securities laws.

(b) If so requested by a managing underwriter or underwriters, if any, or the holders of a majority of the Registrable Securities being sold in connection with the filing of a Registration Statement under the Securities Act for the offering on a continuous or delayed basis in the future of all of

the Registrable Securities (a "Shelf Registration"), the Company shall (i) promptly incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriters, if any, and such holders agree should be included therein, and (ii) make all required filings of such prospectus supplement or post-effective amendment as soon as practicable after the Company has received notification of the matters to be incorporated in such prospectus supplement or post-effective amendment; provided, however, that the Company shall not be required to take any action pursuant to this Section 2.1(b)(ii) that would, in the opinion of counsel for the Company, violate applicable law.

(c) In the event of an underwritten (other than by the Investor) offering of Registrable Securities pursuant to the Registration Statement, the Company shall enter into such reasonable agreements and take all such other reasonable actions in connection therewith (including those reasonably requested by the managing underwriters, if any) in order to expedite or facilitate the disposition of such Registrable Securities, and in such connection, the Company shall (i) make such representations and warranties to the holders of such Registrable Securities and the underwriters, if any, with respect to the business of the Company (including with respect to businesses or assets acquired or to be acquired by the Company), and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in form, substance (subject to such exceptions as the Company may disclose) and scope as are customarily made by issuers to underwriters in underwritten offerings, and confirm such representations and warranties if and when requested; (ii) if an underwriting agreement is entered into, it shall contain indemnification provision and procedures no less favorable to the selling holders of such Registrable Securities and the underwriters, if any, than those set forth herein (or such other provisions and procedures acceptable to the Company, holders of a majority of Registrable Securities covered by such Registration Statement and the managing underwriters, if any); and (iii) deliver such documents and certificates as may be reasonably requested by the holders of a majority of the Registrable Securities being sold, their counsel and the managing underwriters, if any, to evidence the continued validity of their representations and warranties made pursuant to clause (i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

(d) Three (3) Trading Days prior to filing the Registration Statement or Prospectus, or any amendment or supplement thereto (excluding amendments deemed to result from the filing of documents incorporated by reference therein), the Company shall deliver to the Investor and to counsel representing the Investor, in accordance with the notice provisions of Section 4.8, copies of the Registration Statement, Prospectus and/or any amendments or supplements thereto as proposed to be filed, together with exhibits thereto, which documents will be subject to review by the Investor and such counsel, and thereafter deliver to the Investor and such counsel, in accordance with the notice provisions of Section 4.8, such number of copies of the Registration Statement, each amendment and supplement thereto (in each case including all exhibits thereto), the Prospectus (including each preliminary prospectus) and such other documents or information as the Investor or counsel may reasonably request in order to facilitate the disposition of the Registrable Securities.

(e) The Company shall deliver, in accordance with the notice provisions of Section 4.8, to each seller of Registrable Securities covered by the Registration Statement such number of conformed copies of the Registration Statement and of each amendment and supplement thereto (in each case including all exhibits and documents incorporated by reference), such number of copies of the Prospectus (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424 promulgated under the Securities Act relating to such seller's Registrable Securities, and such other documents, as such seller may reasonably request to facilitate the disposition of its Registrable Securities.

(f) After the filing of the Registration Statement, the Company shall promptly notify the Investor of any stop order issued or threatened by the Commission in connection therewith and take

all commercially reasonable actions required to prevent the entry of such stop order or to remove it if entered.

(g) The Company shall use commercially reasonable efforts to (i) register or qualify the Registrable Securities under such other securities or blue sky laws of each jurisdiction in the United States as the Investor may reasonably (in light of its intended plan of distribution) request, and (ii) cause the Registrable Securities to be registered with or approved by such other governmental agencies or authorities in the United States as may be necessary by virtue of the business and operations of the Company and do any and all other customary acts and things that may be reasonably necessary or advisable to enable the Investor to consummate the disposition of the Registrable Securities; provided, however, that the Company will not be required to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 2.1(g), subject itself to taxation in any such jurisdiction, consent or subject itself to general service of process in any such jurisdiction, change any existing business practices, benefit plans or outstanding securities or amend or otherwise modify the Charter or Bylaws.

(h) In the event of an underwritten offering, the Company shall enter into customary agreements and take such other actions as are reasonably required in order to expedite the disposition of such Registrable Securities.

(i) The Company shall make available to the Investor (and will deliver to Investor's counsel),(A) subject to restrictions imposed by the United States federal government or any agency or instrumentality thereof, copies of all public correspondence between the Commission and the Company concerning the Registration Statement and will also make available for inspection by the Investor and any attorney, accountant or other professional retained by the Investor (collectively, the "Inspectors"),(B) upon reasonable advance notice during normal business hours all financial and other records, pertinent corporate documents and properties of the Company (collectively, the "Records") as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers and employees to supply all information reasonably requested by any Inspectors in connection with the Registration Statement; provided, however, that any such Inspectors must agree in writing for the benefit of the Company not to use or disclose any such Records except as provided in this Section 2.1(i). Records that the Company determines, in good faith, to be confidential and that it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless the disclosure or release of such Records is requested or required pursuant to oral questions, interrogatories, requests for information or documents or a subpoena or other order from a court of competent jurisdiction or other judicial or governmental process; provided, however, that prior to any disclosure or release pursuant to the immediately preceding clause, the Inspectors shall provide the Company with prompt notice of any such request or requirement so that the Company may seek an appropriate protective order or waive such Inspectors' obligation not to disclose such Records; and, provided, further, that if failing the entry of a protective order or the waiver by the Company permitting the disclosure or release of such Records, the Inspectors, upon advice of counsel, are compelled to disclose such Records, the Inspectors may disclose that portion of the Records that counsel has advised the Inspectors that the Inspectors are compelled to disclose; provided, however, that upon any such required disclosure, such Inspector shall use his or her best efforts to obtain reasonable assurances that confidential treatment will be afforded such information. The Investor agrees that information obtained by it solely as a result of such inspections (not including any information obtained from a third party who, insofar as is known to the Investor after reasonable inquiry, is not prohibited from providing such information by a contractual, legal or fiduciary obligation to the Company) shall be deemed confidential and shall not be used for any purposes other than as indicated above or by it as the basis for any market transactions in the securities of the Company or its affiliates unless and until such information is made generally available to the public. The Investor further agrees that it will, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to the

Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential.

(j) In the event of an underwritten (other than the Investor) offering of the sale of Registrable Securities pursuant to the Registration Statement, then to the extent required by the managing underwriters and reasonably necessary to effect a sale of Registrable Securities in accordance with prevailing business practices at the time of any such underwritten sale of Registrable Securities pursuant to a Registration Statement, the Company shall deliver to the Investor a signed counterpart, addressed to the Investor, of (1) an opinion or opinions of counsel to the Company, and (2) a comfort letter or comfort letters from the Company's independent public accountants, each in customary form and covering such matters of the type customarily covered by opinions or comfort letters, as the case may be, as the Investor therefor reasonably requests.

(k) The Company shall otherwise comply with all applicable rules and regulations of the Commission, including, without limitation, compliance with applicable reporting requirements under the Exchange Act.

(l) The Company shall appoint a transfer agent and registrar for all of the Registrable Securities covered by such Registration Statement not later than the effective date of such Registration Statement.

(m) The Investor shall cooperate with the Company, as reasonably requested by the Company, in connection with the preparation and filing of any Registration Statement hereunder. The Company may require the Investor to promptly furnish in writing to the Company such information as may be required in connection with such registration including, without limitation, all such information as may be requested by the Commission or the NASD or any state securities commission and all such information regarding the Investor, the Registrable Securities held by the Investor and the intended method of disposition of the Registrable Securities. The Investor agrees to provide such information requested in connection with such registration within five (5) Business days after receiving such written request and the Company shall not be responsible for any delays in obtaining or maintaining the effectiveness of the Registration Statement caused by the Investor's failure to timely provide such information.

(n) Upon receipt of a Blackout Notice from the Company, the Investor shall immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until (i) the Company advises the Investor that the Blackout Period has terminated and (ii) the Investor receives copies of a supplemented or amended prospectus, if necessary. If so directed by the Company, the Investor will deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in the Investor's possession (other than a limited number of file copies) of the prospectus covering such Registrable Securities that is current at the time of receipt of such notice.

(o) If the Investor determines to engage in an Underwritten Offering, the Investor will enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering, and will take such other actions as are reasonably required in order to expedite or facilitate the disposition of the Registrable Securities. The Investor shall consult with the Company prior to any Underwritten Offering and shall defer such Underwritten Offering for a reasonable period upon the commercially reasonable request of the Company.

Section 2.2. REGISTRATION EXPENSES. The Company shall pay all registration expenses incurred in connection with the Registration Statement (the "Registration Expenses"), including, without limitation: (i) all registration, filing, securities exchange listing and fees required by the National

Association of Securities Dealers, (ii) all registration, filing, qualification and other fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities), (iii) all word processing, duplicating, printing, messenger and delivery expenses, (iv) the Company's internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), (v) the fees and expenses incurred by the Company in connection with the listing of the Registrable Securities, (vi) reasonable fees and disbursements of counsel for the Company and customary fees and expenses for independent certified public accountants retained by the Company (including the expenses of any special audits or comfort letters or costs associated with the delivery by independent certified public accountants of such special audit(s) or comfort letter(s) requested pursuant to Section 2.1(k) hereof), (vii) the fees and expenses of any special experts retained by the Company in connection with such registration and amendments and supplements to the Registration Statement and Prospectus, (viii) all reasonable fees and expenses of counsel for the Investor to the extent incurred in connection with the review, and assistance in preparation, of the Registration Statement, correspondence with the Commission and amendments and supplements to the Registration Statement and Prospectus, up to a maximum of $2,500, and (ix) premiums and other costs of the Company for policies of insurance against liabilities arising out of any public offering of the Registrable Securities being registered. Any fees and disbursements of underwriters, broker-dealers or investment bankers, including without limitation underwriting fees, discounts, transfer taxes or commissions, and any other fees or expenses (including legal fees and expenses) if any, attributable to the sale of Registrable Securities, shall be payable by each holder of Registrable Securities pro rata on the basis of the number of Registrable Securities of each such holder that are included in a registration under this Agreement.

ARTICLE III
INDEMNIFICATION

Section 3.1. INDEMNIFICATION. The Company agrees to indemnify and hold harmless the Investor, its partners, Affiliates, officers, directors, employees and duly authorized agents, and each Person or entity, if any, who controls the Investor within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, together with the partners, Affiliates, officers, directors, employees and duly authorized agents of such controlling Person or entity (collectively, the "Controlling Persons"), from and against any loss, claim, damage, liability, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements and costs and expenses of investigating and defending any such claim) (collectively, "Damages"), joint or several, and any action or proceeding in respect thereof to which the Investor, its partners, affiliates, officers, directors, employees and duly authorized agents, and any Controlling Person, may become subject under the Securities Act or otherwise, as incurred, insofar as such Damages (or actions or proceedings in respect thereof) arise out of, or are based upon, any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, or in any preliminary prospectus, final prospectus, summary prospectus, amendment or supplement relating to the Registrable Securities or arises out of, or are based upon, any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein under the circumstances not misleading, and shall reimburse the Investor, its partners, affiliates, officers, directors, employees and duly authorized agents, and each such Controlling Person, for any legal and other expenses reasonably incurred by the Investor, its partners, affiliates, officers, directors, employees and duly authorized agents, or any such Controlling Person, as incurred, in investigating or defending or preparing to defend against any such Damages or actions or proceedings; provided, however, that the Company shall not be liable to the extent that any such Damages arise out of the Investor's (or any other indemnified Person's) failure to send or give a copy of the final prospectus or supplement (as then amended or supplemented) to the persons asserting an untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Registrable Securities to such person if such statement or omission was corrected in such final prospectus or supplement; provided,

further, that the Company shall not be liable to the extent that any such Damages arise out of or are based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such Registration Statement, or any such preliminary prospectus, final prospectus, summary prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Investor or any other person who participates as an underwriter in the offering or sale of such securities, in either case, specifically stating that it is for use in the preparation thereof. In connection with any Registration Statement with respect to which the Investor is participating, such Investor will indemnify and hold harmless, to the same extent and in the same manner as set forth in the preceding paragraph, the Company, each of its directors, officers, each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (each a "Company Indemnified Person") against any Damages to which any Company Indemnified Person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Damages arise out of or are based upon (a) any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, or in any preliminary prospectus, final prospectus, summary prospectus, amendment or supplement relating to the Registrable Securities or arise out of, or are based upon, any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein under the circumstances not misleading to the extent that such violation occurs in reliance upon and in conformity with written information furnished to the Company by the Investor or on behalf of the Investor expressly for use in connection with such Registration Statement or (b) any failure by the Investor to comply with prospectus delivery requirements of the Securities Act, the Exchange Act or any other law or legal requirement applicable to sales under the Registration Statement

Section 3.2. CONDUCT OF INDEMNIFICATION PROCEEDINGS. All claims for indemnification under Section 3.1 shall be asserted and resolved in accordance with the provisions of Section 10.02 and 10.03 of the Purchase Agreement.

Section 3.3. ADDITIONAL INDEMNIFICATION. Indemnification similar to that specified in the preceding paragraphs of this Article 3 (with appropriate modifications) shall be given by the Company with respect to any required registration or other qualification of securities under any federal or state law or regulation of any governmental authority other than the Securities Act. The provisions of this Article III shall be in addition to any other rights to indemnification, contribution or other remedies which an Indemnified Party or a Company Indemnified Person may have pursuant to law, equity, contract or otherwise.

To the extent that any indemnification provided for herein is prohibited or limited by law, the indemnifying party will make the maximum contribution with respect to any amounts for which it would otherwise be liable under this Article III to the fullest extent permitted by law. However, (a) no contribution will be make under circumstances where maker of such contribution would not have been required to indemnify the indemnified party under the fault standards set forth in this Article III, (b) no seller of Registrable Securities guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who is not guilty of such fraudulent misrepresentation, and (c) contribution (together with any indemnification obligations under this Agreement) by any seller of Registrable Securities will be limited in amount of proceeds received by such seller from the sale of such Registrable Securities.

ARTICLE IV
MISCELLANEOUS

Section 4.1. NO OUTSTANDING REGISTRATION RIGHTS. Except as otherwise disclosed in accordance with the Purchase Agreement or in the Commission Documents, the Company represents and warrants to the Investor that there is not in effect on the date hereof any agreement by the Company pursuant to which any holders of securities of the Company have a right to cause the Company to register or qualify such securities under the Securities Act or any securities or blue sky laws of any jurisdiction.

Section 4.2. TERM. The registration rights provided to the holders of Registrable Securities hereunder, and the Company's obligation to keep the Registration Statement effective, shall terminate at the earlier of (i) such time that is two years following the termination of the Purchase Agreement, (ii) such time as all Registrable Securities have been issued and have ceased to be Registrable Securities, or (iii) upon the consummation of an "Excluded Merger or Sale" as defined in the Purchase Agreement. Notwithstanding the foregoing, paragraphs (c) and (d) of Section 1.1, Article III, Section 4.8, and Section 4.9 shall survive the termination of this Agreement.

Section 4.3. RULE 144. The Company will, at its expense, promptly take such action as holders of Registrable Securities may reasonably request to enable such holders of Registrable Securities to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 under the Securities Act ("Rule 144"), as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the Commission. If at any time the Company is not required to file such reports, it will, at its expense, forthwith upon the written request of any holder of Registrable Securities, make available adequate current public information with respect to the Company within the meaning of paragraph (c)(2) of Rule 144 or such other information as necessary to permit sales pursuant to Rule 144. Upon the request of the Investor, the Company will deliver to the Investor a written statement, signed by the Company's principal financial officer, as to whether it has complied with such requirements.

Section 4.4. CERTIFICATE. The Company will, at its expense, forthwith upon the request of any holder of Registrable Securities, deliver to such holder a certificate, signed by the Company's principal financial officer, stating (a) the Company's name, address and telephone number (including area code), (b) the Company's Internal Revenue Service identification number, (c) the Company's Commission file number, (d) the number of shares of each class of Stock outstanding as shown by the most recent report or statement published by the Company, and (e) whether the Company has filed the reports required to be filed under the Exchange Act for a period of at least ninety (90) days prior to the date of such certificate and in addition has filed the most recent annual report required to be filed thereunder.

Section 4.5. AMENDMENT AND MODIFICATION. Any provision of this Agreement may be waived, provided that such waiver is set forth in a writing executed by both parties to this Agreement. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the Company has obtained the written consent of the holders of a majority of the then outstanding Registrable Securities. Notwithstanding the foregoing, the waiver of any provision hereof with respect to a matter that relates exclusively to the rights of holders of Registrable Securities whose securities are being sold pursuant to a Registration Statement and does not directly or indirectly affect the rights of other holders of Registrable Securities may be given by holders of at least a majority of the Registrable Securities being sold by such holders; provided that the provisions of this sentence may not be amended, modified or supplemented except in accordance with the provisions of the immediately preceding sentence. No course of dealing between or among any Person having any interest in this Agreement will be deemed effective to modify, amend or discharge any part of this Agreement or any rights or obligations of any person under or by reason of this Agreement.

Section 4.6. SUCCESSORS AND ASSIGNS; ENTIRE AGREEMENT. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The Investor may assign its rights under this Agreement to any subsequent holder of the Registrable Securities (unless sold pursuant to an effective registration statement or in accordance with Rule 144 under the Securities Act), provided that the Company shall have the right to require any holder of Registrable Securities to execute a counterpart of this Agreement as a condition to such holder's claim to any rights hereunder. The Company may assign this Agreement at any time in connection with a sale or acquisition of the Company, whether by merger, consolidation, sale of all or substantially all of the Company's assets, or similar transaction, without the consent of the Investor or other holders of Registrable Securities, provided that the successor or acquiring Person or entity agrees in writing to assume all of the Company's rights and obligations under this Agreement. This Agreement, together with the Purchase Agreement and the Warrant(s) sets forth the entire agreement and understanding between the parties as to the subject matter hereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them.

Section 4.7. SEVERABILITY. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision; provided that such severability shall be ineffective if it materially changes the economic benefit of this Agreement to any party hereto.

Section 4.8. NOTICES. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be given in accordance with Section 10.04 of the Purchase Agreement.

Section 4.9. GOVERNING LAW; DISPUTE RESOLUTION. This Agreement shall be construed under the laws of the State of New York. Any dispute arising out of or relating to this Agreement shall be resolved by means of arbitration pursuant to the provisions of Article X of the Purchase Agreement.

Section 4.10. HEADINGS. The headings in this Agreement are for convenience of reference only and shall not constitute a part of this Agreement, nor shall they affect their meaning, construction or effect.

Section 4.11. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original instrument and all of which together shall constitute one and the same instrument.

Section 4.12. FURTHER ASSURANCES. Each party shall cooperate and take such action as may be reasonably requested by another party in order to carry out the provisions and purposes of this Agreement and the transactions contemplated hereby.

Section 4.13. ABSENCE OF PRESUMPTION. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing any instrument to be drafted.

IN WITNESS WHEREOF, the parties hereto have caused this Registration Rights Agreement to be executed by the undersigned, thereunto duly authorized, as of the date first set forth above.

CELLEGY PHARMACEUTICALS, INC.

By:

Name:
Title:

KINGSBRIDGE CAPITAL LIMITED

By:

Name: Valentine O'Donoghue
Title: Director

Exhibit 10.11

WARRANT

THE SECURITIES EVIDENCED BY THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE SECURITIES LAWS AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED, HYPOTHECATED OR OTHERWISE DISPOSED OF, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO A TRANSACTION WHICH IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

JANUARY 16, 2004

Warrant to Purchase up to 260,000 shares of Common Stock of Cellegy Pharmaceuticals, Inc. (the "Company").

In consideration for Kingsbridge Capital Limited (the "Investor") agreeing to enter into that certain Common Stock Purchase Agreement, dated as of the date hereof, between the Investor and the Company (the "Agreement"), the Company hereby agrees that the Investor or any other Warrant Holder (as defined below) is entitled, on the terms and conditions set forth below, to purchase from the Company at any time during the Exercise Period (as defined below) up to 260,000 fully paid and nonassessable shares of common stock, no par value, of the Company (the "Common Stock") at the Exercise Price (hereinafter defined), as the same may be adjusted from time to time pursuant to Section 6.1 hereof. The resale of the shares of Common Stock or other securities issuable upon exercise or exchange of this Warrant is subject to the provisions of the Registration Rights Agreement (as defined in the Agreement).

Section 1. Definitions.

"Affiliate" shall mean any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by, or is under direct or indirect common control with any other Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the term "controls" and "controlled" have meanings correlative to the foregoing.

"Closing Price" shall mean the closing price per share of the Company's Common Stock as reported by Bloomberg L.P.

"Exercise Period" shall mean that period beginning six months after the date of this Warrant and continuing until the expiration of the five-year period thereafter.

"Exercise Price" as of the date hereof shall mean 130% of the average of the Closing Prices over the five (5) Trading Days preceding the date of this Warrant, subject to adjustment for the events specified in Section 6.1 below.

"Per Share Warrant Value" shall mean the difference resulting from subtracting the Exercise Price from the Closing Price on the Trading Day immediately preceding the Exercise Date.

"Person" shall mean an individual, a corporation, a partnership, a limited liability company, an association, a trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Principal Market" shall mean the Nasdaq National Market, the Nasdaq SmallCap Market, the American Stock Exchange or the New York Stock Exchange, whichever is at the time the principal trading exchange or market for the Common Stock.

"SEC" shall mean the United States Securities and Exchange Commission.

"Trading Day" shall mean any day other than a Saturday or a Sunday on which the Principal Market is open for trading in equity securities.

"Warrant Holder" shall mean the Investor or any permitted assignee or permitted transferee of all or any portion of this Warrant.

"Warrant Shares" shall mean those shares of Common Stock received upon exercise of this Warrant.

Section 2. Exercise.

(a) Method of Exercise. This Warrant may be exercised in whole or in part (but not as to a fractional share of Common Stock), at any time and from time to time during the Exercise Period, by the Warrant Holder by (i) surrender of this Warrant, with the form of exercise attached hereto as Exhibit A completed and duly executed by the Warrant Holder (the "Exercise Notice"), to the Company at the address set forth in Section 13 hereof, accompanied by payment of the Exercise Price multiplied by the number of shares of Common Stock for which this Warrant is being exercised (the "Aggregate Exercise Price") or (ii) telecopying an executed and completed Exercise Notice to the Company and delivering to the Company within five (5) business days thereafter the original Exercise Notice, this Warrant and the Aggregate Exercise Price. Each date on which an Exercise Notice is received by the Company in

accordance with clause (i) and each date on which the Exercise Notice is telecopied to the Company in accordance with clause (ii) above shall be deemed an "Exercise Date."

(b) Payment of Aggregate Exercise Price. Subject to paragraph (c) below, payment of the Aggregate Exercise Price shall be made by wire transfer of immediately available funds to an account designated by the Company. If the amount of the payment received by the Company is less than the Aggregate Exercise Price, the Warrant Holder will be notified of the deficiency and shall make payment in that amount within three (3) Trading Days. In the event the payment exceeds the Aggregate Exercise Price, the Company will refund the excess to the Warrant Holder within five (5) Trading Days of receipt.

(c) Cashless Exercise. In the event that the Warrant Shares to be received by the Warrant Holder upon exercise of the Warrant may not be resold pursuant to an effective registration statement or an exemption to the registration requirements of the Securities Act of 1933, as amended, and applicable state laws, the Warrant Holder may, as an alternative to payment of the Aggregate Exercise Price upon exercise in accordance with paragraph (b) above, elect to effect a cashless exercise by so indicating on the Exercise Notice and including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). If a registration statement on Form S-1 under the Securities Act of 1933, as amended, or such other form as deemed appropriate by counsel to the Company for the registration for the resale by the Warrant Holder of (x) the shares of Common Stock of the Company that may be purchased under the Agreement, (y) the Warrant Shares, or (z) any securities issued or issuable with respect to any of the foregoing by way of exchange, stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise, has been declared effective by the SEC and remains effective, the Company may permit or require the Warrant Holder elect to effect a Cashless Exercise. In the event of a Cashless Exercise, the Warrant Holder shall receive that number of shares of Common Stock determined by (i) multiplying the number of Warrant Shares for which this Warrant is being exercised by the Per Share Warrant Value and (ii) dividing the product by the Closing Price on the

Trading Day immediately preceding the Exercise Date, rounded to the nearest whole share. The Company shall cancel the total number of Warrant Shares equal to the excess of the number of the Warrant Shares for which this Warrant is being exercised over the number of Warrant Shares to be received by the Warrant Holder pursuant to such Cashless Exercise.

(d) Replacement Warrant. In the event that the Warrant is not exercised in full, the number of Warrant Shares shall be reduced by the number of such Warrant Shares for which this Warrant is exercised, and the Company, at its expense, shall forthwith issue and deliver to or upon the order of the Warrant Holder a new Warrant of like tenor in the name of the Warrant Holder, reflecting such adjusted number of Warrant Shares.

Section 3. Ten Percent Limitation. The Warrant Holder may not exercise this Warrant such that the number of Warrant Shares to be received pursuant to such exercise aggregated with all other shares of Common Stock then owned by the Warrant Holder beneficially or deemed beneficially owned by the Warrant Holder would result in the Warrant Holder owning more than 9.9% of all of such Common Stock as would be outstanding on such Exercise Date, as determined in accordance with Section 13(d) of the Exchange Act of 1934 and the rules and regulations promulgated thereunder.

Section 4. Delivery of Stock Certificates.

(a) Subject to the terms and conditions of this Warrant, as soon as practicable after the exercise of this Warrant in full or in part, and in any event within ten (10) Trading Days thereafter, the Company at its expense (including, without limitation, the payment by it of any applicable issue taxes) will cause to be issued in the name of and delivered to the Warrant Holder, or as the Warrant Holder may lawfully direct, a certificate or certificates for the number of validly issued, fully paid and non-assessable Warrant Shares to which the Warrant Holder shall be entitled on such exercise, together with any other stock or other securities or property (including cash, where applicable) to which the Warrant Holder is entitled upon such exercise in accordance with the provisions hereof.

(b) This Warrant may not be exercised as to fractional shares of Common Stock. In the event that the exercise of this Warrant, in full or in part, would result in the issuance of any fractional share of Common Stock, then in such event the Warrant Holder shall receive the number of shares rounded to the nearest whole share.

Section 5. Representations, Warranties and Covenants of the Company.

(a) The Warrant Shares, when issued in accordance with the terms hereof, will be duly authorized and, when paid for or issued in accordance with the terms hereof, shall be validly issued, fully paid and non-assessable.

(b) The Company shall take all commercially reasonable action and proceedings as may be required and permitted by applicable law, rule and regulation for the legal and valid issuance of this Warrant and the Warrant Shares to the Warrant Holder.

(c) The Company has authorized and reserved for issuance to the Warrant Holder the requisite number of shares of Common Stock to be issued pursuant to this Warrant. The Company shall at all times reserve and keep available, solely for issuance and delivery as Warrant Shares hereunder, such shares of Common Stock as shall from time to time be issuable as Warrant Shares.

(d) From the date hereof through the last date on which this Warrant is exercisable, the Company shall take all steps commercially reasonable to ensure that the Common Stock remains listed or quoted on the Principal Market.

Section 6.1. Adjustment of the Exercise Price. The Exercise Price and, accordingly, the number of Warrant Shares issuable upon exercise of the Warrant, shall be subject to adjustment from time to time upon the happening of certain events as follows:

(a) Reclassification, Consolidation, Merger, Mandatory Share Exchange, Sale or Transfer.

(i) Upon occurrence of any of the events specified in subsection (a)(ii) below (the "Adjustment Events") while this Warrant is unexpired and not exercised in full, the Warrant Holder may in its sole discretion require the Company, or any successor or purchasing corporation, as the case may be, without payment of any additional consideration therefor, to execute and deliver to the Warrant Holder a new Warrant providing that the Warrant Holder shall have the right to exercise such new Warrant (upon terms not less favorable to the Warrant Holder than those then applicable to this Warrant) and to receive upon such exercise, in lieu of each share of Common Stock theretofore issuable upon exercise of this Warrant, the kind and amount of shares of stock, other securities, money or property receivable upon such Adjustment Event by the holder of one share of Common Stock issuable upon exercise of this Warrant had this Warrant been exercised immediately prior to such Adjustment Event. Such new Warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 6.1.

(ii) The Adjustment Events shall be (1) any reclassification or change of Common Stock (other than a change in par value, as a result of a subdivision or combination of Common Stock or in connection with an Excluded Merger or Sale), (2) any consolidation, merger or mandatory share exchange of the Company with or into another corporation (other than a merger or mandatory share exchange with another corporation in which the Company is a continuing corporation and which does not result in any reclassification or change other than a change in par value or as a result of a subdivision or combination of Common Stock), other than (each of the following referred to as an "Excluded Merger or Sale") a transaction involving (A) sale of all or substantially all of the assets of the Company, (B) any merger, consolidation or similar transaction where the considerable payable to the shareholders of the Company by the acquiring Person consists substantially entirely of cash, or where the acquiring Person do not agree to assume the obligations of the Company under outstanding warrants (including this Warrant). In the event of an Excluded Merger or Sale Transaction, if the surviving, successor or purchasing Person does not agree to assume the obligations under this Warrant, then the Company shall deliver a notice to the Warrant Holder at least 10 days before the consummation of such Excluded Merger or Sale, the Warrant Holder may exercise this Warrant at any time before the consummation of such Excluded Merger or Sale (and such exercise may be made contingent upon the consummation of such Excluded Merger or Sale), and any portion of this Warrant that has not been exercised before consummation of such Excluded Merger or Sale shall terminate and expire, and shall no longer be outstanding.

(b) Subdivision or Combination of Shares. If the Company, at any time while this Warrant is unexpired and not exercised in full, shall subdivide its Common Stock, the Exercise Price shall be proportionately reduced as of the effective date of such subdivision, or, if the Company shall take a record of holders of its Common Stock for the purpose of so subdividing, as of such record date, whichever is earlier. If the Company, at any time while this Warrant is unexpired and not exercised in full, shall combine its Common Stock, the Exercise Price shall be proportionately increased as of the effective date of such combination, or, if the Company shall take a record of holders of its Common Stock for the purpose of so combining, as of such record date, whichever is earlier.

(c) Stock Dividends. If the Company, at any time while this Warrant is unexpired and not exercised in full, shall pay a dividend or other distribution in shares of Common Stock to all holders of Common Stock, then the Exercise Price shall be adjusted, as of the date the Company shall take a record of the holders of its Common Stock for the purpose of receiving such dividend or other distribution (or if no such record is taken, as at the date of such payment or other distribution), to that

price determined by multiplying the Exercise Price in effect immediately prior to such payment or other distribution by a fraction:

1. the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to such dividend or distribution, and

2. the denominator of which shall be the total number of shares of Common Stock outstanding immediately after such dividend or distribution.

The provisions of this subsection (c) shall not apply under any of the circumstances for which an adjustment is provided in subsections (a) or (b).

(d) Liquidating Dividends, Etc. If the Company, at any time while this Warrant is unexpired and not exercised in full, makes a distribution of its assets or evidences of indebtedness to the holders of its Common Stock as a dividend in liquidation or by way of return of capital or other than as a dividend payable out of earnings or surplus legally available for dividends under applicable law or any distribution to such holders made in respect of the sale of all or substantially all of the Company's assets (other than under the circumstances provided for in the foregoing subsections (a) through (c)), then the Warrant Holder shall be entitled to receive upon exercise of this Warrant in addition to the Warrant Shares receivable in connection therewith, and without payment of any consideration other than the Exercise Price, the kind and amount of such distribution per share of Common Stock multiplied by the number of Warrant Shares that, on the record date for such distribution, are issuable upon such exercise of the Warrant (with no further adjustment being made following any event which causes a subsequent adjustment in the number of Warrant Shares issuable), and an appropriate provision therefor shall be made a part of any such distribution. The value of a distribution that is paid in other than cash shall be determined in good faith by the Board of Directors of the Company. Notwithstanding the foregoing, in the event of a proposed dividend in liquidation or distribution to the shareholders made in respect of the sale of all or substantially all of the Company's assets, the Company shall deliver a notice to the Warrant Holder at least 10 days before the consummation of such event, the Warrant Holder may exercise this Warrant at any time before the consummation of such event (and such exercise may be made contingent upon the consummation of such event), and any portion of this Warrant that has not been exercised before consummation of such event shall terminate and expire, and shall no longer be outstanding.

Section 6.2 Notice of Adjustments. Whenever the Exercise Price or number of Warrant Shares shall be adjusted pursuant to Section 6.1 hereof, the Company shall promptly prepare a certificate signed by its President or Chief Financial Officer setting forth in reasonable detail the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated (including a description of the basis on which the Company's Board of Directors made any determination hereunder), and the Exercise Price and number of Warrant Shares purchasable at that Exercise Price after giving effect to such adjustment, and shall promptly cause copies of such certificate to be sent by overnight courier to the Warrant Holder. In the event the Company shall, at a time while the Warrant is unexpired and not exercised in full, take any action that pursuant to subsections (a) through (c) of Section 6.1 may result in an adjustment of the Exercise Price, the Company shall give to the Warrant Holder at its last address known to the Company written notice of such action ten (10) days in advance of its effective date in order to afford to the Warrant Holder an opportunity to exercise the Warrant prior to such action becoming effective.

Section 7. No Impairment. The Company will not, by amendment of its Amended and Restated Articles of Incorporation or By-Laws or through any reorganization, transfer of assets, consolidation, merger, dissolution or issue or sale of securities, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrant Holder against impairment. Without limiting the generality of the

foregoing, the Company (a) will not increase the par value of any Warrant Shares above the amount payable therefor on such exercise, and (b) will take all such action as may be reasonably necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares on the exercise of this Warrant.

Section 8. Rights As Stockholder. Except as set forth in Section 6 above, prior to exercise of this Warrant, the Warrant Holder shall not be entitled to any rights as a stockholder of the Company with respect to the Warrant Shares, including (without limitation) the right to vote such shares, receive dividends or other distributions thereon or be notified of stockholder meetings. However, in the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company shall mail to each Warrant Holder, at least ten (10) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

Section 9. Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of the Warrant and, in the case of any such loss, theft or destruction of the Warrant, upon delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

Section 10. Choice of Law. This Warrant shall be construed under the laws of the State of New York.

Section 11. Entire Agreement; Amendments. Except for any written instrument concurrent or subsequent to the date hereof executed by the Company and the Investor, this Warrant and the Agreement contain the entire understanding of the parties with respect to the matters covered hereby and thereby. No provision of this Warrant may be waived or amended other than by a written instrument signed by the party against whom enforcement of any such amendment or waiver is sought.

Section 12. Restricted Securities.

(a) Registration or Exemption Required. This Warrant has been issued in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, in reliance upon the provisions of Section 4(2) thereof. This Warrant and the Warrant Shares issuable upon exercise of this Warrant may not be resold except pursuant to an effective registration statement or an exemption to the registration requirements of the Securities Act of 1933 and applicable state laws.

(b) Legend. Any replacement Warrants issued pursuant to Section 2 and Section 9 hereof and, unless a registration statement has been declared effective by the SEC in accordance with the Securities Act of 1933, as amended, with respect thereto, any Warrant Shares issued upon exercise hereof, shall bear the following legend:

> "THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE SECURITIES LAWS AND HAVE BEEN ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED,

ENCUMBERED, HYPOTHECATED OR OTHERWISE DISPOSED OF, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO A TRANSACTION WHICH IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION."

(c) No Other Legend or Stock Transfer Restrictions. No legend other than the one specified in Section 12(b) has been or shall be placed on the share certificates representing the Warrant Shares and no instructions or "stop transfer orders" (so called "stock transfer restrictions") or other restrictions have been or shall be given to the Company's transfer agent with respect thereto other than as expressly set forth in this Section 12.

(d) Assignment. Assuming the conditions of Section 12(a) above regarding registration or exemption have been satisfied, the Warrant Holder may sell, transfer, assign, pledge or otherwise dispose of this Warrant (each of the foregoing, a "Transfer"), in whole or in part, but only to an Affiliate of the Warrant Holder. The Warrant Holder shall deliver a written notice to Company, substantially in the form of the Assignment attached hereto as Exhibit B, indicating the person or persons to whom the Warrant shall be Transferred and the respective number of warrants to be Transferred to each assignee. The Company shall effect the Transfer within ten (10) days, and shall deliver to the Transferee(s) designated by the Warrant Holder a Warrant or Warrants of like tenor and terms for the appropriate number of shares. In connection with and as a condition of any such proposed Transfer, the Company may request the Warrant Holder to provide an opinion of counsel to the Warrant Holder in form and substance reasonably satisfactory to the Company to the effect that the proposed Transfer complies with all applicable federal and state securities laws.

(e) Investor's Compliance. Nothing in this Section 12 shall affect in any way the Investor's obligations under any agreement to comply with all applicable securities laws upon resale of the Common Stock.

Section 13. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile (with accurate confirmation generated by the transmitting facsimile machine) at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard.
Suite 200
South San Francisco, California 94080
Telephone: (650) 616-2200
Facsimile: (650) 616-2222
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

Weintraub Genshlea Chediak & Sproul
400 Capitol Mall, Eleventh Floor
Sacramento, CA 95814
Telephone: (916) 558-6000
Facsimile: (916) 446-1611
Attention: C. Kevin Kelso, Esq.

if to the Investor:

Kingsbridge Capital Limited c/o
Kingsbridge Corporate Services Limited
Main Street
Kilcullen, County Kildare
Republic of Ireland
Telephone: 011-353-45-481-811
Facsimile: 011-353-45-482-003
Attention: Adam Gurney, Director

with a copy (which shall not constitute notice) to:

Clifford Chance US LLP
200 Park Avenue
New York, NY 10166
Telephone: (212) 878-8000
Facsimile: (212) 878-8375
Attention: Keith M. Andruschak, Esq.

Either party hereto may from time to time change its address or facsimile number for notices under this Section 13 by giving at least ten (10) days prior written notice of such changed address or facsimile number to the other party hereto.

Section 14. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

IN WITNESS WHEREOF, this Warrant was duly executed by the undersigned, thereunto duly authorized, as of the date first set forth above.

CELLEGY PHARMACEUTICALS, INC.

By:

Name:
Title:

EXHIBIT A TO THE WARRANT

EXERCISE FORM

CELLEGY PHARMACEUTICALS, INC.

The undersigned hereby irrevocably exercises the right to purchase _____ shares of Common Stock of Cellegy Pharmaceuticals, Inc., a California corporation, evidenced by the attached Warrant, and (CIRCLE EITHER (i) or (ii)) (i) tenders herewith payment of the Aggregate Exercise Price with respect to such shares in full, in the amount of $_____, in cash, by certified or official bank check or by wire transfer for the account of the Company or (ii) elects, pursuant to Section 2(c) of the Warrant, to convert such Warrant into shares of Common Stock of Cellegy Pharmaceuticals, Inc. on a cashless exercise basis, all in accordance with the conditions and provisions of said Warrant.

The undersigned requests that stock certificates for such Warrant Shares be issued, and a Warrant representing any unexercised portion hereof be issued, pursuant to this Warrant, in the name of the registered Warrant Holder and delivered to the undersigned at the address set forth below.

Dated:

- ---
Signature of Registered Holder
Name of Registered Holder (Print)

- ---
Address

EXHIBIT B TO THE WARRANT
ASSIGNMENT

(To be executed by the registered Warrant Holder desiring to transfer the Warrant)

FOR VALUED RECEIVED, the undersigned Warrant Holder of the attached Warrant hereby sells, assigns and transfers unto the persons below named the right to purchase _____ shares of Common Stock of Cellegy Pharmaceuticals, Inc. evidenced by the attached Warrant and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Warrant on the books of the Company, with full power of substitution in the premises.

Dated:

- ----------
Signature

Fill in for new Registration of Warrant:

- ----------
Name

- ----------
Address

- ----------
Please print name and address of assignee
(including zip code number)

Exhibit 10.14

CELLEGY PHARMACEUTICALS, INC.
349 Oyster Point Boulevard, Suite 200
South San Francisco, CA 94080

November 5, 2003

Mr. Richard C. Williams
26001 Osprey Nest Court
Bonita Springs, FL 34134

Re: Invitation to Join the Board of Directors of Cellegy Pharmaceuticals, Inc.

Dear Dick:

On behalf of the Board of Directors of Cellegy Pharmaceuticals, Inc. (the "Board"), I am pleased to invite you to join the Board of Directors of Cellegy as a non-employee (and non-officer), non-executive Chairman of the Board. Your responsibilities as Chairman of the Board will be as assigned to you from time to time by the Board, and initially will involve spending such amount of time as you deem appropriate to fulfill your responsibilities as Chairman and as otherwise previously discussed with you.

Your compensation as Chairman of the Board initially will be comprised of the following:

1. A cash director's fee at a rate of $100,000 per year, payable in equal installments twice per month in accordance with normal Company policy;

2. Reimbursement of reasonable expenses (following submission of customary documentation per company policies) for travel, meals and lodging (at rates generally comparable to reimbursements for other non-employee directors of the Company, and subject to any additional arrangements regarding travel that are approved by the Board) in connection with attending Board meetings and otherwise carrying out your duties as Chairman;

3. Except for option grants and director fee payments to other outside directors as described below, such other benefits as are extended to the Company's non-employee directors as a group from time to time; and

4. A ten-year option in the form attached as Exhibit I hereto to purchase 1,000,000 shares of Common Stock of the Company (the "Option"). The Option will be fully vested and exercisable as of the date the Option is granted. However, the Option with respect to the 400,000 shares, whether or not exercised, shall not be subject to forfeiture. With respect to the remaining 600,000 shares (the "Second Tranche Shares"), but only with respect to the number of such 600,000 Second Tranche Shares represented by the unexercised portion of the Option for those shares, the right to purchase such Second Tranche Shares shall terminate and be forfeited if you voluntarily resign as Chairman and a Director of the Board of Directors, or elect not to be nominated for election as a Director, during the period from the date hereof to the one-year anniversary of the date the Option is granted. With respect to 400,000 Second Tranche Shares, but only with respect to the number of such 400,000 Second Tranche Shares represented by the unexercised portion of the Option for those shares, the right to purchase such Second Tranche Shares, shall terminate and be forfeited if you voluntarily resign as Chairman and a Director of the Board of Directors, or elect not to be nominated for election as a Director, during the period from the one-year anniversary of the date the Option is granted to the two-year anniversary of the date the Option is granted. With respect to 200,000 Second Tranche Shares, but only with respect to the number of such 200,000 Second Tranche Shares represented by the unexercised portion of the Option for those shares, the right to purchase such Second Tranche Shares, shall terminate and be forfeited if you voluntarily resign as Chairman and a Director of the Board of Directors, or elect not to be nominated for election as a Director, during the period from the two-year anniversary of the date the Option is granted to the three-year anniversary of the date the Option is granted.

This compensation package is unique to you and will be reviewed from time to time. Cellegy maintains a compensation program for its outside directors that includes an initial option grant and a subsequent annual grant of stock options and payment of fees for attending Board meetings, which you will not be entitled to received in light of the larger stock option to be granted to you.

In accordance with the Company's By-Laws the Board of Directors has elected or has agreed to elect you as Chairman of the Board to fill an existing vacancy, subject to your willingness to hold such position. Your election will be confirmed by the Board on November 6, 2003, at the Board's next meeting. Upon election, you will stand for re-election at the next annual meeting of the shareholders of Cellegy

We look forward to having you join the Board of Directors of Cellegy.

Sincerely yours,

Tobi Klar,
Chairman of the Nominating/
Corporate Governance Committee of
the Board of Directors

ACKNOWLEDGED AND AGREED:

VOID AFTER 5:00 P.M., SAN FRANCISCO TIME,
ON NOVEMBER 6, 2013

THIS OPTION AND THE SHARES ISSUABLE UPON EXERCISE OF THIS OPTION HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS UNLESS OFFERED, SOLD OR TRANSFERRED PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

Date: November 6, 2003

CELLEGY PHARMACEUTICALS, INC.
STOCK PURCHASE OPTION

THIS CERTIFIES THAT, Richard C. Williams ("Optionee"), and his heirs or assigns (together with Optionee, the "Holder"), is entitled to purchase from Cellegy Pharmaceuticals, Inc., a corporation organized under the laws of the State of California (the "Company"), at any time or from time to time during the Option Exercise Period (as defined in Section 2 below), One Million (1,000,000) fully paid and nonassessable shares (the "Option Shares") of the Company's common stock, no par value per share (the "Common Stock"), at an exercise price per share equal to (i) $_____ per share for Four Hundred Thousand (400,000) of the Option Shares (the "First Tranche Shares") and (ii) $5.00 per share for Six Hundred Thousand (600,000) (the "Second Tranche Shares") of the Option Shares (in each case, as applicable, the "Exercise Price"). The number of shares of Common Stock purchasable hereunder and the applicable Exercise Price are subject to adjustment as provided in Section 4 hereof.

This Option is subject to the following terms, provisions and conditions:

1. Vesting; Manner of Exercise; Issuance of Certificates; Payment for Shares.

(a) Vesting. This Option is fully vested and exercisable as of the date hereof. Notwithstanding the foregoing, (i) this Option with respect to the First Tranche Shares, whether or not exercised, shall not be subject to forfeiture; (ii) with respect to the remaining 600,000 shares, but only with respect to the number of such 600,000 Second Tranche Shares represented by the unexercised portion of this Option for those Second Tranche Shares, the right to purchase such Second Tranche Shares shall terminate and be forfeited if Optionee voluntarily resigns as Chairman and a Director of the Board of Directors, or elects not to be nominated for election as a Director, during the period from the date hereof to the one-year anniversary of the date hereof, (iii) with respect to 400,000 Second Tranche Shares, but only with respect to the number of such 400,000 Second Tranche Shares represented by the unexercised portion of this Option for those Second Tranche Shares, the right to purchase such Second Tranche Shares shall terminate and be forfeited if Optionee voluntarily resigns as Chairman and a Director of the Board of Directors, or elects not to be nominated for election as a Director, during the period from the one-year anniversary of the date hereof to the two-year anniversary of the date hereof; and (iv) with respect to 200,000 Second Tranche Shares, but only with respect to the number of such 200,000 Second Tranche Shares represented by the unexercised portion of this Option for those Second Tranche Shares, the right to purchase such Second Tranche Shares, shall terminate and be forfeited if Optionee voluntarily resigns as Chairman and a Director of the Board of Directors, or elects not to be nominated for election as a Director, during the period from the two-year anniversary of the date hereof to the three-year anniversary of the date hereof.

(b) Exercise. Subject to the provisions hereof, including, without limitation, the limitations contained in Section 1(a) hereof, this Option may be exercised at any time or from time to time during the Option Exercise Period by the Holder hereof, in whole or in part, by the surrender of this Option, together with a completed exercise agreement in the form attached hereto (the "Exercise Agreement"), to the Company by 11:59 p.m. San Francisco time on any Business Day at the Company's principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof) and upon (i) payment to the Company in cash, by certified or official bank check or by wire transfer for the account of the Company, of the applicable Exercise Price for the Option Shares specified in the Exercise Agreement, or (ii) delivery to the Company of a written notice of an election to effect a Cashless Exercise pursuant to Section 1(c) hereof for the Option Shares specified in the Exercise Agreement. The Option Shares so purchased shall be deemed to be issued to the Holder hereof, as the record owner of such shares, as of the close of business on the date on which this Option shall have been surrendered and the completed Exercise Agreement shall have been delivered and payment shall have been made for such shares as set forth above or, if such day is not a Business Day, on the next succeeding Business Day. The Option Shares so purchased, representing the aggregate number of shares specified in the Exercise Agreement, shall be delivered to the Holder hereof within a reasonable time after this Option shall have been so exercised. Any certificates so delivered shall be in such denominations as may be requested by the Holder hereof, shall be registered in the name of such Holder and, following the date on which the Option Shares have been registered under the Securities Act or otherwise may be sold by the Holder pursuant to Rule 144 promulgated under the Securities Act (or a successor rule), shall not bear any restrictive legend. Holder agrees to

comply with all applicable securities laws and regulations in connection with any sale of any Option Shares pursuant to a registration statement, Rule 144 or otherwise and to deliver such documents as the Company may reasonably request in order to confirm compliance with such laws in connection with any such proposed sale. If this Option shall have been exercised only in part, then, unless this Option has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the Holder a new Option representing the number of shares with respect to which this Option shall not then have been exercised.

(c) Cashless Exercise. Notwithstanding anything to the contrary contained in this Option but subject to applicable law, this Option may be exercised for the purchase of

Option Shares any time or from time to time during the Option Exercise Period, by presentation and surrender of this Option to the Company at its principal executive offices with a written notice of the Holder's intention to effect a cashless exercise, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a "Cashless Exercise"). In the event of a Cashless Exercise, in lieu of paying the applicable Exercise Price in cash, the Holder shall surrender this Option for that number of shares of Common Stock determined by multiplying (i) the number of Option Shares to which it would otherwise be entitled by (ii) a fraction, the numerator of which shall be the difference between the then current Average Price per share of the Common Stock and the applicable Exercise Price, and the denominator of which shall be the Average Price per share of Common Stock.

Nothing herein shall limit the Holder's right to pursue actual damages or other relief (including equitable relief) for the Company's failure to maintain a sufficient number of authorized shares of Common Stock as required pursuant to the terms of Section 3(b) hereof or to otherwise issue shares of Common Stock upon exercise of this Option in accordance with the terms hereof.

2. Period of Exercise. The Option may be exercised at any time or from time to time during the period (the "Option Exercise Period") beginning on (a) the date hereof and ending (b) at 5:00 p.m., San Francisco time, on November 6, 2013.

3. Certain Agreements of the Company. The Company hereby covenants and agrees as follows:

(a) Shares to be Fully Paid. All Option Shares will, upon issuance in accordance with the terms of this Option, be validly issued, fully paid and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Reservation of Shares. During the period beginning on the date hereof and ending upon the expiration of the Option Exercise Period, the Company shall at all times have authorized, and reserved for the purpose of issuance upon exercise of this Option, a sufficient number of shares of Common Stock to provide for the exercise in full of this Option.

(c) Valid Issuance. The Company will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Option.

(d) Successors and Assigns. Subject to the provisions of Section 4(c) below, this Option will be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

4. Antidilution Provisions. During the Exercise Period, the number of Option Shares issuable upon the exercise of this Option, and the applicable Exercise Price therefor, shall be subject to adjustment from time to time as provided in this Section 4.

(a) Subdivision or Combination of Common Stock. If the Company, at any time, subdivides (by any stock split, stock dividend, recapitalization, reorganization,

reclassification or otherwise) its shares of Common Stock into a greater number of shares, then, after the date of record for effecting such subdivision, the number of Option Shares issuable upon exercise of this Option in effect immediately prior to such subdivision will be proportionately increased. If the Company, at any time during the Exercise Period, combines (by reverse stock split, recapitalization, reorganization, reclassification or otherwise) its shares of Common Stock into a smaller number of shares, then, after the date of record for effecting such combination, the number of Option Shares issuable upon exercise of this Option in effect immediately prior to such combination will be proportionately reduced.

(b) Adjustment of Exercise Price Generally. Upon each adjustment of the number of Option Shares for which this Option is exercisable pursuant to the provisions of this Section 4, the applicable Exercise Price with respect to the Option Shares shall be increased or decreased by multiplying such Exercise Price immediately prior to such adjustment by a fraction, of which the numerator shall be the number of Option Shares issuable upon exercise of this Option for such Exercise Price immediately prior to such adjustment, and of which the denominator shall be the number of Option Shares for which this Option is exercisable for such Exercise Price immediately thereafter.

(c) Consolidation, Merger or Sale. In case of (i) any consolidation of the Company with, or merger of the Company into, any other entity, where immediately after the consummation of such transaction the shareholders of the Company immediately prior thereto do not own, directly or indirectly, by virtue of their ownership of securities of the Company outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving entity (or its parent entity) in such transaction, or (ii) in case of any sale of all or substantially all of the assets of the Company, any surviving or acquiring entity shall assume this Option or shall substitute an equivalent Option (exercisable for such shares of stock, securities, cash, or assets as may be issued or payable with respect to or in exchange for the number of shares of Common Stock immediately theretofore acquirable and receivable upon exercise of this Option had such transaction not taken place); provided, however, that if the Board of Directors of the Company determines that options outstanding under the Company's 1995 Equity Incentive Plan (the "1995 Plan") shall not continue to be exercisable after the consummation of such transaction, then this Option shall be exercisable and shall terminate at such times as the Board may determine with respect to options under the 1995 Plan.

(d) Notice of Adjustment. Upon the occurrence of any event which requires any adjustment of the number of Option Shares issuable upon the exercise of this Option, then, and in each such case, the Company shall give notice thereof to the Holder of this Option, which notice shall state the number of Option Shares issuable resulting from such adjustment and the increase or decrease in the applicable Exercise Price therefor, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Such calculation shall be certified by the chief financial officer of the Company.

(e) No Fractional Shares. No fractional shares of Common Stock are to be issued upon the exercise of this Option, but the Company shall pay a cash adjustment in respect of any fractional share which would otherwise be issuable in an amount equal to the same fraction of the Average Price of a share of Common Stock on the date of such exercise.

(f) Certain Events. If, at any time during the Exercise Period, any event occurs of the type contemplated by the adjustment provisions of this Section 4(a) but not expressly provided for by such provisions, the Company will give notice of such event as provided in Section 4(d) hereof, and the Company will make an appropriate adjustment in the number of shares of Common Stock acquirable upon exercise of this Option and the applicable Exercise Price therefor so that the rights of the Holder shall be neither enhanced nor diminished by such event.

(g) Certain Definitions.

(i) "Average Price" shall mean, with respect to any date of determination, the average Closing Price during the ten (10) Trading Days ending on the Trading Day immediately preceding such date of determination appropriately adjusted to reflect any stock dividend, stock split or similar transaction during either such relevant period. The manner of determining the Average Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made hereunder.

(ii) "Business Day" means any day, other than a Saturday or Sunday or a day on which banking institutions in the State of California are authorized or obligated by law, regulation or executive order to close.

(iii) "Closing Price" shall mean for the Common Stock as of any date, the closing sale price of such security on the NASDAQ Stock Market, or if the Common Stock is not then traded on the NASDAQ Stock Market, the principal United States securities exchange or trading market on which such security is listed or traded, or if the foregoing does not apply, the last reported sale price of such security in the over-the-counter market on the electronic bulletin board for such security, or, if no sale price is reported for such security, the average of the sale prices of any market makers for such security as reported in the "pink sheets" by the National Quotation Bureau, Inc., in each case for such date or, if such date was not a Trading Day (as defined below) for such security, on the next preceding day which was a Trading Day. If the Closing Price cannot be calculated for a share of Common Stock as of either of such dates on any of the foregoing bases, the Closing Price of such security on such date shall be the fair market value as determined by an investment banking firm selected by the Holder and reasonably acceptable to the Company, with the costs of such appraisal to be borne by the Company. The manner of determining the Closing Price of the Common Stock set forth in the foregoing definition shall apply with respect to any other security in respect of which a determination as to market value must be made.

(iv) "Common Stock," for purposes of this Section 4, includes the Common Stock and any additional class of stock of the Company having no preference as to dividends or distributions on liquidation, provided that the shares purchasable pursuant to this Option shall include only Common Stock in respect of which this Option is exercisable, or shares resulting from any subdivision or combination of such Common Stock, or in the case of any reorganization, reclassification, consolidation, merger, or sale of the character referred to in Section 4(a) hereof, the stock or other securities or property provided for in such Section.

(v) "Trading Day" shall mean a Business Day on which shares of the Company's Common Stock are traded on the principal United States securities exchange or trading market on which such security is listed or traded.

5. Issue Tax. The issuance of certificates for Option Shares upon the exercise of this Option shall be made without charge to the Holder of this Option or such shares for any issuance tax or other costs in respect thereof, provided that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than the Holder of this Option.

6. No Rights or Liabilities as a Stockholder. This Option shall not entitle the Holder hereof to any voting rights or other rights as a stockholder of the Company. No provision of this Option, in the absence of affirmative action by the Holder hereof to purchase Option Shares, and no mere enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for the Exercise Price or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

7. Replacement of Option; Compliance With Laws and Regulations.

(a) Replacement of Option. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Option and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Option, the Company, at its expense, will execute and deliver, in lieu thereof, a new Option of like tenor.

(b) Exercise or Transfer Without Registration. The exercise of this Option and the issuance and transfer of Option Shares shall be subject to compliance by the Company and Holder will all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's Common Stock may be listed at the time of such issuance or transfer. Except as set forth in Section 7(c) hereof, Holder understands that the Company is under no obligation to register or qualify the Option Shares with the Securities and Exchange Commission or any state securities commission to effect such compliance. If, at the time of the surrender of this Option in connection with any exercise of this Option or transfer or sale of any Option Shares, the issuance or the resale of Option Shares shall not be registered under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such exercise, transfer or sale, (i) that the Holder of this Option furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such exercise or transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the Holder and/or transferee execute and deliver to the Company an investment letter in form and substance reasonably acceptable to the Company and (iii) if the transfer is not registered under the Securities Act or exemption from registration by virtue of Rule 144(k), that the transferee be an "accredited investor" as defined in Rule 501(a) promulgated under the Securities Act; provided that no such opinion, letter, or status as an "accredited investor" shall be required in connection with routine transfers pursuant to Rule 144 under the Securities Act.

(c) Piggy-Back Registration Rights. If at any time during the Exercise Period there is not an effective registration statement covering the issuance and resale of, all of the Option Shares, or if the Option Shares may not be freely publicly resold pursuant to the provisions of Rule 144 (including, without limitation, Rule 144(k), giving effect to tacking rules applicable to net exercise of this Option), and the Company shall determine to prepare and file with the SEC a registration statement relating to an offering for its own account or the account of others under the Securities Act of 1933, as amended, of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act of 1933, as amended), then the Company shall send to Holder written notice of such determination and, if within ten (10) days after receipt of such notice, Holder shall so request in writing, the Company shall include in such registration statement all or any part of such Option Shares such Holder requests to be registered, subject to customary provisions regarding the ability of the underwriter or the Company to reduce the number of shares included in the registration applicable to all directors and officers of the Company (if Holder is then a director) or other holders whose shares are included in the registration and subject to any required consent of any selling stockholder(s) under such registration statement. The Company shall be under no obligation to keep such registration effective with respect to Holder for any longer period of time than it otherwise determines to maintain the effectiveness of the registration statement for other selling securityholders. Expenses of such piggyback registrations (exclusive of underwriting discounts and commissions) will be paid by the Company.

8. Notices. Any notices required or permitted to be given under the terms of this Option shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier or by confirmed telecopy, and shall be effective five days after being placed in the mail, if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed telecopy, in each case addressed to a party. The addresses for such communications shall be:

If to the Company:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard, Suite 200
South San Francisco, California 94080
Facsimile No.:
Attention: Chief Executive Officer

If to the Holder, at such address as such Holder shall have provided in writing to the Company, or at such other address as such Holder furnishes by notice given in accordance with this Section 8.

9. Governing Law; Jurisdiction. This Option shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed in the State of California.

10. Miscellaneous.

(a) Amendments. This Option and any provision hereof may only be amended by an instrument in writing signed by the Company and the Holder hereof.

(b) Descriptive Headings. The descriptive headings of the several Sections of this Option are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(c) Partial Exercise. Upon any partial exercise of this Option, the Company shall cancel the Option upon surrender thereof, and shall, within two (2) Business Days of such surrender, execute and deliver a new Option of like tenor and date for the balance of the outstanding Option Shares.

(d) Withholding; Tax Consequences. Prior to the issuance of any shares upon exercise (or cashless exercise) of this Option, the Holder shall remit to the Company any federal, state or local taxes that are required to be withheld, which withholding obligations may be satisfied, with the consent of the Board of Directors of the Company (or a committee of the Board composed of disinterested directors) and subject to such reasonable conditions as the Board (or committee) may establish and to compliance with applicable securities laws, through the surrender of shares of Common Stock which the Holder already owns or to which the Holder is otherwise entitled under this Option, with such shares valued based on the fair market value of such shares as of the date that the amount of tax to be withheld is to be determined. Holder acknowledges that the Company has not made any representations or warranties to Holder concerning the federal, state or local tax consequences of the grant or exercise of this Option or the transfer of any Option Shares, and Holder is solely responsible for consulting with Holder's own tax advisers concerning such matters.

(e) Entire Agreement. This Option contains the entire understanding and agreement between the parties with respect to the subject matter hereof and supersedes any and all prior agreements, negotiations and discussions between the Company and Holder with respect to the subject matter hereof.

(f) Counterparts. This Option may be executed in one or more counterparts, each of which shall constitute an original but all of which taken together shall constitute one and the same agreement.

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IN WITNESS WHEREOF, the Company has caused this Option to be signed by its duly authorized officer.

CELLEGY PHARMACEUTICALS, INC.

By:

Name:
Title:

FORM OF EXERCISE AGREEMENT

(To be Executed by the Holder in order to Exercise the Option)

To: Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard, Suite 200
South San Francisco, California 94080
Facsimile No.:
Attention:

[If Exercise for cash:

The undersigned hereby irrevocably exercises the right to purchase _____ shares of the Common Stock of Cellegy Pharmaceuticals, Inc., a corporation organized under the laws of the State of California (the "Company"), pursuant to Section 1(a)(i) of the attached Option and herewith makes payment of the applicable Exercise Price of $____ per share with respect to such shares in full, all in accordance with the conditions and provisions of said Option.]

[If Cashless Exercise:

The undersigned hereby irrevocably exercises the right to convert _____ Options represented by the attached Option into _____ shares of the Common Stock of Cellegy Pharmaceuticals, Inc., a corporation organized under the laws of the State of California (the "Company"), pursuant to Section 1(c) of the attached Option. The number of shares of Common Stock to which the undersigned shall be entitled upon conversion of the Options referred to above shall be calculated in accordance with Section 1(c) of the attached Option based on the applicable Exercise Price of $___ per share.]

The undersigned agrees not to offer, sell, transfer or otherwise dispose of any Common Stock obtained on exercise of the Option, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws.

The undersigned requests that a Option representing any unexercised portion hereof be issued, pursuant to the Option, in the name of the Holder and delivered to the undersigned at the address set forth below:

Dated:

Signature of Holder

Name of Holder (Print)

Address:

Exhibit 10.16

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is made effective as of , and is entered into by and between CELLEGY PHARMACEUTICALS, INC., a California corporation (the "Company"), and _____ ("Indemnitee").

RECITALS

A. The Company and Indemnitee recognize the increasing difficulty in obtaining directors' and officers' liability insurance, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance.

B. The Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting officers and directors to expensive litigation risks at the same time as the availability and coverage of liability insurance has been severely limited.

C. Indemnitee does not regard the current protection available as adequate under the present circumstances, and Indemnitee and other officers and directors of the Company may not be willing to continue to serve as officers and directors without additional protection.

D. The Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as officers and directors of the Company and to indemnify its officers and directors so as to provide them with the maximum protection permitted by law.

THEREFORE, the Company and Indemnitee hereby agree as follows:

1. INDEMNIFICATION.

(a) Third Party Proceedings. The Company shall indemnify Indemnitee if Indemnitee is or was a party, or is threatened to be made a party to or witness or other participant in, any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") (other than a proceeding by or in the right of the Company) by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such proceeding unless the Company shall establish, in accordance with the procedures described in Section 2(c) of this Agreement, that Indemnitee did not act in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company, and, with respect to any criminal proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not create a presumption that (i) Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in the best interests of the Company, or (ii) with respect to any criminal proceeding, Indemnitee had no reasonable cause to believe that Indemnitee's conduct was unlawful.

(b) Proceedings By or in the Right of the Company. The Company shall indemnify Indemnitee if Indemnitee was or is a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any proceeding by or in the right of the Company or any subsidiary of the Company to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company, or any subsidiary of the Company, by reason of any action or inaction on the part of Indemnitee while an officer or director or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including, without limitation, attorneys' fees) and, to the fullest extent permitted by law, amounts paid in settlement, in each case to the extent actually and reasonably incurred by Indemnitee, in connection with the defense or settlement of such proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the Company and its shareholders, except that no indemnification shall be made in respect of any proceeding, claim, issue or matter as to which Indemnitee shall have been finally adjudicated by court order or judgment to be liable to the Company in the performance of Indemnitee's duty to the Company and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine.

2. Expenses: Indemnification Procedure.

(a) Advancement of Expenses. The Company shall advance all expenses incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any proceeding referenced in Section 1(a) or (b) hereof (but not amounts actually paid in settlement of any such proceeding). Indemnitee hereby undertakes to repay such amounts advanced only if, and to the extent

that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder shall be paid by the Company to Indemnitee within twenty (20) days following delivery of a written request therefor by Indemnitee to the Company and documentation reasonably evidencing the expenses for which reimbursement is requested. The parties agree that for the purposes of any expense advance for which Indemnitee has made written demand to the Company in accordance with this Agreement, all expenses included in such expense advance that are certified in good faith by affidavit of Indemnitee's counsel as being reasonable shall be presumed conclusively to be reasonable.

(b) Notice. Indemnitee shall, as a condition precedent to Indemnitee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable

of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Executive Officer of the Company at the address shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to Indemnitee). Notice shall be deemed received three business days after the date postmarked if sent by domestic certified or registered mail, properly addressed; otherwise notice shall be deemed received when such notice shall actually be received by the Company.

(c) Procedure; Determination of Right to Indemnification.

(i) Any indemnification provided for in Section 1 and this Section 2 shall be made no later than forty-five (45) days after receipt of the written request of Indemnitee. If a claim under this Agreement, under any statute, or under any provision of the Company's Articles of Incorporation or By-laws providing for indemnification, is not paid in full by the Company within forty-five (45) days after a written request for payment thereof has first been received by the Company, Indemnitee may, but need not, at any time thereafter bring an action against the Company to recover the unpaid amount of the claim and, subject to Section 12 of this Agreement, Indemnitee shall also be entitled to be paid for the expenses (including, without limitation, attorneys' fees) of bringing such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any proceeding in advance of its final disposition) that Indemnitee has not met the standards of conduct which make it permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed, but the burden of proving such defense shall be on the Company, and Indemnitee shall be entitled to receive interim payments of expenses pursuant to Subsection 2(a) unless and until such defense may be finally adjudicated by court order or judgment from which no further right of appeal exists.

(ii) It is the parties' intention that if the Company contests Indemnitee's right to indemnification, the question of Indemnitee's right to indemnification shall be resolved as provided in subparagraph (iv) below, and neither the failure of the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its shareholders) to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct required by applicable law, nor an actual determination by the Company (including its Board of Directors, any committee or subgroup of the Board of Directors, independent legal counsel, or its shareholders) that Indemnitee has not met such applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct.

(iii) To the extent that the Indemnitee has been successful on the merits in defense of any proceeding referred to in Section 1(a) or 1(b) above or in defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses actually and reasonably incurred by Indemnitee in connection therewith.

(iv) In the event that subparagraph (iii) above is inapplicable, or does not apply to the entire proceeding, the Company shall nonetheless indemnify the Indemnitee (unless applicable law expressly requires a different procedure) unless the Company shall prove by clear

and convincing evidence to the forum selected as provided in subparagraph (v) below that the Indemnitee has not met the applicable standard of conduct required to entitle the Indemnitee to such indemnification.

(v) The Indemnitee shall be entitled to select the forum in which the validity of the Company's claim under subparagraph (iv) above that the Indemnitee is not entitled to indemnification will be heard from among the following, except that the Indemnitee can select a forum consisting of the shareholders of the Company only with the approval of the Company:

(A) a quorum consisting of directors who are not parties to the proceeding for which indemnification is being sought;

(B) independent legal counsel, which shall render a conclusion in a written legal opinion;

(C) the shareholders of the Company; or

(D) the court having jurisdiction of the subject matter of the proceeding and the parties.

For purposes of the above, "independent legal counsel" shall mean a reputable law firm with experience in the general subject matter of this Agreement, or a member of such a firm, mutually agreed upon by the Company and Indemnitee, that neither is presently nor in the past three (3) years has been retained to represent: (i) the Company or any of its subsidiaries or affiliates, or Indemnitee or any corporation or which Indemnitee was or is a director, officer, employee or agent, or any subsidiary or affiliate of such a corporation, in any material matter, or (ii) any other party to the claim giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "independent legal counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's right to indemnification under this Agreement. As soon as practicable, and in no event later than thirty (30) days after the forum has been selected pursuant to this subparagraph (v), the Company shall, at its own expense, submit to the selected forum its claim that the Indemnitee is not entitled to indemnification, and the Company shall act in the utmost good faith to assure the Indemnitee a complete opportunity to defend against such claim. If the forum selected in accordance with this subparagraph (v) is independent legal counsel, the Company agrees to pay the reasonable fees of the independent legal counsel and to indemnify fully such counsel against any and all expenses (including legal fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. If the forum selected in accordance with this subparagraph (v) is not a court, then after the final decision of such forum is rendered, the Company or Indemnitee shall have the right to apply to a court with jurisdiction over the parties and subject matter, or the court in which the proceeding giving rise to the Indemnitee's claim for indemnification is or was pending, for the purpose of appealing the decision of such forum, provided that such right is exercised within sixty (60) days after the final decision of such forum is rendered. If the forum selected in accordance with this subparagraph is a court, then the rights of the Company or Indemnitee to appeal any decision of such court shall

be governed by the applicable laws and rules governing appeals of the decision of such court. Notwithstanding any other provision in this Agreement, the Company shall indemnify the Indemnitee against all expenses reasonably incurred by Indemnitee in connection with any hearing or proceeding under this subparagraph (v) involving Indemnitee and against all expenses reasonably incurred by Indemnitee involving the interpretation or enforcement of the rights of Indemnitee under this Agreement unless a court of competent jurisdiction finds that each of the material claims and/or defenses of Indemnitee in any such proceeding was frivolous or not made in good faith.

(d) Notice to Insurers. If, at the time of the receipt of a notice of a claim pursuant to Section 3(b) hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable actions to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(e) Selection of Counsel. If the Company shall be obligated under Section 2(a) hereof to pay the expenses of any proceeding against Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, with counsel selected by the Company and approved by Indemnitee, which approval shall not be unreasonably withheld, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that (i) Indemnitee shall have the right to employ Indemnitee's counsel in any such proceeding at Indemnitee's expense; (ii) Indemnitee shall have the right to employ Indemnitee's own counsel in connection with any such proceeding, at the expense of the Company, if such counsel serves in a review, observer, advice and counseling capacity and does not otherwise materially control or participate in the defense of such proceeding; and (iii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (C) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Company. The Company shall not be liable to indemnify Indemnitee or advance expenses to Indemnitee under this Agreement for any amounts paid in settlement of any proceeding effected by Indemnitee without the Company's written consent, which consent shall not be unreasonably withheld, unless Indemnitee receives court approval for such settlement or other disposition where the Company had the opportunity to oppose Indemnitee's request for such court approval. The Company shall be permitted to settle any proceeding except that it shall not settle any proceeding in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement.

(f) Cooperation. If the Company assumes the defense of any claim for which indemnification is sought under this Agreement, Indemnitee shall furnish such information

regarding Indemnitee, or the proceeding in question, as the Company may reasonably request and as may be required in connection with the defense or settlement of such proceeding, and shall cooperate fully with the Company in every other respect.

3. ADDITIONAL INDEMNIFICATION RIGHTS; NONEXCLUSIVITY.

(a) Scope. Notwithstanding any other provision of this Agreement, the Company hereby agrees to indemnify the Indemnitee to the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Articles of Incorporation, the Company's Bylaws or by statute. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule which expands the right of a California corporation to indemnify a member of its board of directors, an officer or other corporate agent, such changes shall be, ipso facto, within the purview of Indemnitee's rights and Company's obligations, under this Agreement. In the event of any change in any applicable law, statute or rule which narrows the right of a California corporation to indemnify a member of its Board of Directors, an officer or other corporate agent, such changes, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder.

(b) Nonexclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Articles of Incorporation, its Bylaws, any agreement, any vote of shareholders or disinterested directors, the Corporation Law of the State of California, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while holding such office. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though Indemnitee may have ceased to serve in such capacity at the time of any covered proceeding.

4. PARTIAL INDEMNIFICATION.

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred by either in the investigation, defense, appeal or settlement of any civil or criminal proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify each of Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

5. MUTUAL ACKNOWLEDGMENT.

The Company and Indemnitee acknowledge that in certain instances, Federal law or applicable public policy may prohibit the Company from indemnifying its directors, officers and agents under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain

circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

6. OFFICER AND DIRECTOR LIABILITY INSURANCE.

The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of directors' and officers' liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if Indemnitee is a director; or of the Company's officers, if Indemnitee is not a director of the Company but is an officer. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a subsidiary or parent of the Company.

7. SEVERABILITY.

Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. Each provision of this Agreement, including without limitation, provisions within a single sentence or clause therein, shall be severable as provided in this Section 7. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

8. EXCEPTIONS.

Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Unlawful Indemnification. To indemnify Indemnitee for any acts or omissions or transactions from which a court having jurisdiction in the matter shall determine that Indemnitee may not be relieved of liability under California or any other applicable state or federal law. In this respect, the Company and the Indemnitee have been advised that the Securities and Exchange Commission takes the position that indemnification for liabilities

arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication.

(b) Claims Initiated by Indemnitee. To indemnify or to advance expenses to Indemnitee with respect to proceedings or claims initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 317 of the California General Corporation Law, but such indemnification or advancement of expenses may be provided by the Company in specific cases if the Board of Directors has approved the initiation or bringing of such suit; or

(c) Lack of Good Faith. To indemnify Indemnitee for any expenses incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee, as the case may be, in such proceeding was not made in good faith or was frivolous; or

(d) No Duplication of Payments. To indemnify Indemnitee for expenses or liabilities of any type whatsoever (including, without limitation, judgments, fines, ERISA, excise taxes or penalties, and amounts paid in settlement) to the extent that Indemnitee has otherwise actually received payment (under any insurance policy, provision of the Company's articles of incorporation, bylaws or otherwise) of the amounts otherwise payable hereunder; or

(e) Claims Under Section 16(b). To indemnify Indemnitee for expenses and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

9. CONSTRUCTION OF CERTAIN PHRASES.

(a) For purposes of this Agreement, references to the "Company" shall include in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers and employees or agents, so that if Indemnitee is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with

respect to an employee benefit plan, its participants, or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

10. COUNTERPARTS.

This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

11. SUCCESSORS AND ASSIGNS.

This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns (including, in the case of the Company, any successor by merger or similar transaction), and shall inure to the benefit of Indemnitee and Indemnitee's estate, and each of Indemnitee's heirs, legal representatives and assigns.

12. ATTORNEYS' FEES.

In the event that any action is instituted by Indemnitee under this Agreement or under any liability insurance policies maintained by the Company to enforce or interpret any of the terms hereof, Indemnitee shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by Indemnitee with respect to such action, regardless of whether Indemnitee is ultimately successful in such action, unless as a part of such action, a court of competent jurisdiction makes a final judicial determination (as to which all rights of appeal therefrom have been exhausted or lapsed) that each of the material assertions made by Indemnitee as a basis for such action were not made in good faith or were frivolous. In the event of an action instituted by or in the name of the Company under this Agreement or to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all costs and expenses, including, without limitation, reasonable attorneys' fees, incurred by Indemnitee in defense of such action (including, without limitation, with respect to Indemnitee's counterclaims and cross-claims made in such action), unless as a part of such action the court makes a final judicial determination (as to which all rights of appeal therefrom have been exhausted or lapsed) that each of Indemnitee's material defenses to such action were made in bad faith or were frivolous.

13. NOTICE.

All notices, requests, demands and other communications under this Agreement shall be in writing, shall be effective upon receipt, and shall be delivered by Federal Express or a similar courier, personal delivery, certified or registered air mail, or by facsimile transmission. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.

14. CONSENT TO JURISDICTION.

The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the state courts of the State of California.

15. CHOICE OF LAW.

This Agreement shall be governed by and its provisions construed in accordance with the laws of the State of California as applied to contracts between California residents entered into and to be performed entirely within California.

16. SUBROGATION.

In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

17 . CONTINUATION OF INDEMNIFICATION.

All agreements and obligations of the Company contained herein shall continue during the period that Indemnitee is a director, officer or agent of the Company and shall continue thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitrational, administrative or investigative, by reason of the fact that Indemnitee was serving in the capacity referred to herein.

18. AMENDMENT AND TERMINATION.

Subject to Section 17, no amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

CELLEGY PHARMACEUTICALS, INC.

By:

Title:

Address: 349 Oyster Point Boulevard
Suite 200
South San Francisco,
California 94080

AGREED TO AND ACCEPTED:

INDEMNITEE:

- ---
(Signature)

- ---
(Name)

- ---
(Address)

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 (Nos. 333-06065, 333-32301, 333-60343, 333-42840 and 333-91588) and Form S-3 (Nos. 333-11457, 333-36057, 333-46087, 333-86193, 333-49466, 333-64864 and 333-102485) of Cellegy Pharmaceuticals, Inc. of our report dated March 29, 2004 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
April 6, 2004

Exhibit 23.2

Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-06065, 333-32301, 333-60343, 333-42840 and 333-91588) pertaining to the 1992 Stock Option Plan, the 1995 Equity Incentive Plan, and the 1995 Directors' Stock Option Plan, and the Registration Statements (Form S-3 Nos. 333-11457, 333-36057, 333-46087, 333-86193, 333-49466, 333-64864 and 333-102485) of Cellegy Pharmaceuticals, Inc. and in the related Prospectuses, of our report dated February 13, 2003 (except for Note 13, as to which the date is March 24, 2004), with respect to the 2002 consolidated financial statements of Cellegy Pharmaceuticals, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2003.

/s/ ERNST & YOUNG LLP

Palo Alto, California
April 6, 2004

CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, K. Michael Forrest, certify that:

1. I have reviewed this report on Form 10-K of Cellegy Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and (15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 6, 2004 By: /s/ K. Michael Forrest

President and Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, A. Richard Juelis, certify that:

1. I have reviewed this report on Form 10-K of Cellegy Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and (15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors :

a) all significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 6, 2004

By: /s/ A. Richard Juelis

Vice President, Finance and
Chief Financial Officer

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this annual report on Form 10-K of Cellegy Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2003, as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), K. Michael Forrest, as President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

i. The Report fully complied with the requirements of sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

ii. The information contained in the Report fairly presents, in all material respects, the financial Condition and results of operations of the Company:

By: /s/ K. Michael Forrest

K. Michael Forrest
President and Chief Executive Officer Date: April 6, 2004

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this annual report on Form 10-K of Cellegy Pharmaceuticals, Inc. (the "Company") for the period ended December 31, 2003, as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), A. Richard Juelis, as Vice President, Finance and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

iii. The Report fully complied with the requirements of sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

iv. The information contained in the Report fairly presents, in all material respects, the financial Condition and results of operations of the Company

By: /s/ A. Richard Juelis

A. Richard Juelis
Vice President, Finance and Chief Financial Officer
Date: April 6, 2004