UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended JULY 31, 1997

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

For the transition period from _____ to _____.

Commission file number: 0-27756.

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

DELAWARE	13-3648318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25 SCIENCE PARK, SUITE 360, NEW HAVEN, CONNECTICUT	06511
(Address of principal executive offices)	(Zip Code)

203-776-1790
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None.

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, Par Value $0.0001

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. [X]

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based upon the last sale price of the Common Stock reported on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market System on October 22, 1997, was $107,375,000.

The number of shares of Common Stock outstanding as of October 22, 1997 was 9,107,149 .

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

This report contains forward-looking statements which involve risks and uncertainties. Such statements are subject to certain factors which may cause the Company's plans and results to differ significantly from plans and results discussed in forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in "Important Factors Regarding Forward-Looking Statements" attached hereto as Exhibit 99.

OVERVIEW

Since its inception in January 1992, Alexion has devoted substantially all of its resources to its drug discovery, research and product development programs. To date, Alexion has not received any revenues from the sale of

products. The Company has been unprofitable since inception, and expects to incur substantial and increasing operating losses for the next several years due to expenses associated with product research and development, preclinical and clinical testing, regulatory activities and manufacturing development and scale-up. As of July 31, 1997, the Company has incurred a cumulative net loss of $31.8 million.

The Company's plan is to develop and commercialize on its own those product candidates for which the clinical trial and marketing requirements can be funded by the Company. For certain of the Company's C5 Inhibitor and Apogen products for which greater resources will be required, Alexion's strategy is to form corporate partnerships with major pharmaceutical companies for product development and commercialization. Alexion has entered into a strategic alliance with US Surgical with respect to the Company's UniGraft program and with GTI/Novartis with respect to the Company's gene transfer technology, and intends to seek additional strategic alliances with major pharmaceutical companies although no assurances can be given that such alliances will be successfully entered into.

The Company recognizes research and development revenues when the development expenses are incurred and the related work is performed under the terms of the contracts. Any revenue contingent upon future expenditures by the Company is deferred and recognized as the expenditures are incurred. Any revenues contingent upon the achievement of milestones will be recognized when the milestones are achieved.

RESULTS OF OPERATIONS

Years Ended July 31, 1997, 1996, and 1995

The Company earned grant, license, and contract research revenues of $3.8 million, $2.6 million, and $136,000 for the fiscal years ended July 31, 1997, 1996, and 1995, respectively. The increase in fiscal 1997 was primarily due to the $1.1 million of revenues the Company received from GTI/Novartis which represented a one-time upfront license fee of $750,000 and contract research and development revenues of $350,000. The increase in fiscal year 1996 revenues as compared to fiscal 1995 resulted principally from Company's revenues received from U.S. Surgical of approximately $2.0 million from a collaborative research and development agreement and the funding of $246,000 from the NIST's ATP grant. The revenues in fiscal 1995

resulted from the receipt of funds from two SBIR grants from the NIH. See "Item 1. Business--Strategic Alliances, Collaborations and Licenses."

During the fiscal years ended July 31, 1997, 1996, and 1995, the Company expended $9.1 million, $6.6 million, and $5.6 million, respectively, on research and development activities. Increases in research and development spending were primarily attributable to expanded preclinical development of the company's research programs which included the manufacturing product development for the Company's C5 Inhibitor and Apogen product candidates and the initiation of clinical trials following authorization by the FDA of the Company's IND for its lead C5 inhibitor product candidate. See Item 1. "Business--Alexion's Drug Development Programs, Cardiopulmonary Bypass Surgery".

The Company's general and administrative expenses were $2.8 million, $1.8 million, and $1.6 million for the fiscal years ended July 31, 1997, 1996 and 1995, respectively. The increase in general and administrative expenses in fiscal 1997 consisted of $523,000 related to increased expenses associated with facilities' expansion, employee benefits, and increased travel and administrative costs attributable to increased clinical, regulatory, and scientific conference activities. The remaining balance $477,000 of the increase was related to increased costs for outside professional services and insurance related to business development, recruiting, patent and legal activities as a public company.

Other income (expense), net, representing primarily net investment income (expenses), was $843,754, $397,495, and ($29,195) for the fiscal years ended July 31, 1997, 1996, and 1995, respectively. This fluctuation over the past three years was due primarily to greater investment income from higher cash balances available for investment and a more favorable investment market during fiscal year 1997 as compared to the prior two fiscal years.

As a result of the above factors, the Company had incurred net losses of $7.3 million, $5.4 million, and $7.1 million for the fiscal years ended July 31, 1997, 1996 and 1995, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception through July 31, 1997, the Company has financed its operations and capital expenditures primarily through its private placements and initial public offering of equity securities resulting in approximately $52.3 million of aggregate net proceeds. The Company has financed the purchase of certain equipment through $1.2 million of secured notes payable to a financing institution and $378,000 of capital lease obligations. Through July 31, 1997, the Company has also received approximately $5.2 million in research and development support under its collaborations with US Surgical and GTI/Novartis. The Company has also received $1.1 million from its SBIR grants from the NIH and $660,000 under the ATP grant from NIST.

All of the foregoing proceeds have been used to fund operating activities of approximately $26.5 million and investments of approximately $2.9 million and $975,000 in equipment and licensed technology rights and patents, respectively, through July 31, 1997. As of July 31, 1997, the Company had working capital of approximately $20.6 million and total cash, cash equivalents, and marketable securities amounted to approximately $22.7 million.

The Company increased its cash and cash equivalents by $7.25 million during the twelve months ended July 31, 1997. This increase resulted principally from cash flows provided by (i) financing activities which provided $10.79 million from the net proceeds received from the issuance of common stock and $185,000 from the return of security deposits offset by $320,000 in repayments of notes payable and (ii) investing activities which generated $3.12 million from the net proceeds of maturing marketable securities offset by equipment purchases of $749,000. These cash inflows were offset by the $5.72 million cash outflow used in operating activities primarily as a result of $7.25 million of operating losses. At July 31, 1997, approximately $16.74 million of cash is held in short-term highly liquid investments with original maturities of less than three months.

Subsequent to the Company's fiscal year end on July 31, 1997, the Company received the following significant additional proceeds. In September 1997, the Company received approximately $9.5 million in net proceeds from the issuance of shares of Series B Preferred Stock to a single institutional investor. At the end of September 1997, US Surgical and the Company modified the July 1995 Joint Development Agreement. As part of the modification, US Surgical made an additional $6.5 million payment to the Company for equity, exclusive licensing rights, and certain manufacturing assets. See "Item 1. Strategic Alliances, Collaborations and Licenses--United States Surgical Corporation". See "Item 5. Market for Registrant's Common Equity and Related Stockholder Matters--Recent Sale of Unregistered Securities".

The Company leases its administrative and research and development facilities under three operating leases expiring in June 1998, December 1997 and March 1999 each with a renewal option for up to an additional three years.

The Company is obligated to make payments pursuant to certain of its licensing and research and development agreements. The Company is scheduled to pay $242,000, $177,000 and $172,000 (assuming no termination of these agreements) during the fiscal years ending July 31, 1998, 1999 and 2000, respectively. In addition, the Company is obligated to make certain future milestone payments, aggregating up to $400,000 to certain of its licensors, with regards to receiving regulatory approval on the Company's anticipated IND filings as well as upon certain patent issuances. See "Item 1. Business--Strategic Alliances, Collaborations and Licenses."

The Company anticipates that its existing available capital resources and interest earned on available cash and marketable securities should be sufficient to fund its operating expenses and capital requirements as currently planned for at least the next eighteen months. While the Company currently has no material commitments for capital expenditures, the Company's future capital requirements will depend on many factors, including the progress of the Company's research and development programs, progress in clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in obtaining and enforcing patents and any necessary licenses, the ability of the Company to establish development and commercialization relationships, and the costs of manufacturing scale-up. See "Item 1. Business--Alexion's Drug Development Strategy."

The Company expects to incur substantial additional costs, including costs associated with research, preclinical and clinical testing, manufacturing process development, and additional capital expenditures associated with facility expansion and manufacturing requirements in order to commercialize its products currently under development. The Company will need to raise substantial additional funds through additional financings including public or private equity offerings and collaborative

research and development arrangements with corporate partners. There can be no assurance that funds will be available on terms acceptable to the Company, if at all, or that discussions with potential collaborative partners will result in any agreements. The unavailability of additional financing could require the Company to delay, scale back or eliminate certain of its research and product development programs or to license third parties to commercialize products or technologies that the Company would otherwise undertake itself, any of which could have a material adverse effect on the Company.

As of July 31, 1997, the Company had approximately $13.4 million and $1.1 million of net operating loss and tax credit carryforwards for tax reporting purposes, respectively, which expire commencing in fiscal 2008. The Tax Reform Act of 1986 (the "Tax Act") contains certain provisions that may limit the Company's ability to utilize net operating loss and tax credit carryforwards in any given year if certain events occur, including cumulative changes in ownership interests in excess of 50% over a three-year period. There can be no assurance that ownership changes in future periods will not significantly limit the Company's use of its existing net operating loss and tax credit carryforwards.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The consolidated financial statements and supplementary data of the Company required in this item are set forth on pages F-1 thru F-20.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In July 1995, the Company entered into a series of agreements with US Surgical relating to a collaboration for the development of non-human UniGraft organ products designed for transplantation into humans. In furtherance of the joint collaboration, US Surgical also purchased $4.0 million of the Company's Common Stock, at a price of $8.75 per share and agreed to fund up to $7.5 million for the completion of preclinical research and development of the UniGraft program, a portion of which was dependent on the achievement of development milestones. US Surgical, a principal stockholder of the Company, purchased approximately ten percent of the shares of Common Stock offered at the Company's initial public offering. Through July 31, 1997, the Company received $4.0 million in research and development support under its collaboration with US Surgical.

In September 1997, US Surgical and the Company modified the July 1995 Joint Development Agreement. As part of the modification, US Surgical made an additional $6.5 million payment to the Company for equity, exclusive licensing rights, and certain manufacturing assets. Under the modified agreement, the additional $6.5 million payment comprised: (i) a $3 million equity investment in the Company through the purchase of 166,945 shares of the Company's Common Stock at a price of $17.97 per share, which represented a 25% premium over the market price on the day prior to the date of closing and (ii) a $3.5 million payment to acquire technology and certain xenograft manufacturing assets. Further, as part of the amended agreement, US Surgical and the Company agreed that the preclinical milestone payments in the original agreement are considered to have been satisfied. At October 1, 1997, US Surgical beneficially owned an aggregate of 824,087 shares of Common Stock or approximately 9.1% of the Company's outstanding shares of common stock.

In June and October 1992, the Company entered into certain patent licensing agreements with Oklahoma Medical Research Foundation ("OMRF") and Yale University ("Yale"). The agreements provide that the Company agreed to pay such institutions royalties based on sales of products incorporating technology licensed thereunder and also license initiation fees, including annual minimum royalties that increase in amount based on the status of product development and the passage of time. Under policies of OMRF and Yale, the individual inventors of patents are entitled to receive a percentage of the royalties and other license fees received by the licensing institution. Certain founders of and scientific advisors to the Company are inventors under such patent and patent applications (including Drs. Bell and Madri, directors of the Company, and Dr. Squinto, the Vice President of Research, Molecular Sciences of the Company, with respect to patent applications licensed from Yale) and, therefore, entitled to receive a portion of such royalties and other fees payable by the Company. During the fiscal year ended July 31, 1997 the Company was not required to make any payments pursuant to the above-referenced license agreements. Beginning in fiscal 1998, the Company will be obligated to make an annual minimum license payment of $100,000 to OMRF.

In June 1992, the Company and OMRF entered into a research agreement with respect to the development of complement inhibitors, pursuant to which Drs. Peter Sims and Theresa Wiedmer, scientific advisors to the Company, serve as principal investigators. Per the research agreement, the Company paid an aggregate of $1,000,000 over a four-year period through October 1, 1996. There can be no assurance that the research agreement will result in discoveries useful to the Company. As the principal investigators under the sponsored research programs under the research agreement, Drs. Sims and Wiedmer will directly benefit from the payments. During the fiscal year ended July 31, 1997 the Company was not required to make any payments pursuant to the above-referenced research agreements.

In addition, the Company had signed in June 1992 four-year consulting contracts with Drs. Sims and Wiedmer. For fiscal year ended July 31, 1996, Drs. Sims and Wiedmer were paid by the Company directly less than $60,000 and in fiscal year ended July 31, 1997, no payments were made direct to Drs. Sims and Wiedmer by the Company. As of July 31, 1997, the Company has not renewed the consulting contracts. Dr. Sims is currently the Associate Director for Research of The Blood Center of Southeastern Wisconsin and the research operations of Drs. Sims and Wiedmer are conducted at The Blood Center. OMRF has assigned to The Blood Center, and The Blood Center has accepted, all rights, responsibilities and obligations of OMRF under the research and development agreement. Drs. Sims and Wiedmer are married to each other.

SIGNATURES

Pursuant to the requirements of Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALEXION PHARMACEUTICALS, INC.

By: /s/ LEONARD BELL

Leonard Bell, M.D.
President, Chief Executive Officer,
Secretary and Treasurer

Dated: November 14, 1997

ALEXION PHARMACEUTICALS, INC.

(A Development Stage Company)

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of

Alexion Pharmaceuticals, Inc.:

We have audited the accompanying balance sheets of Alexion Pharmaceuticals, Inc. (a Delaware corporation in the development stage) as of July 31, 1996 and 1997, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 1997, and for the period from inception (January 28, 1992) through July 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alexion Pharmaceuticals, Inc. as of July 31, 1996 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 1997, and for the period from inception (January 28, 1992) through July 31, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Hartford, Connecticut
August 29, 1997 (except with
respect to the matters discussed
in Note 16, as to which the date
is September 30, 1997)

ALEXION PHARMACEUTICALS, INC.

(A Development Stage Company)

BALANCE SHEETS

	July 31, 1996	July 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,491,217	$ 16,742,516
Marketable securities	9,106,534	6,006,380
Prepaid expenses	466,731	232,385
Total current assets	19,064,482	22,981,281
EQUIPMENT, net	592,271	786,495
OTHER ASSETS:		
Licensed technology rights, net	330,365	242,366
Patent application costs, net	194,004	168,691
Organization costs, net	5,280	--
Security deposits and other assets	267,578	81,728
	797,227	492,785
Total assets	$20,453,980	$ 24,260,561
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of notes payable	$ 322,508	$ 130,000
Current obligations under capital leases	28,593	7,768
Accounts payable	280,913	727,553
Accrued expenses	400,577	1,201,770
Deferred revenue	1,000,000	347,070
Total current liabilities	2,032,591	2,414,161
NOTES PAYABLE, less current portion included above	128,264	--
OBLIGATIONS UNDER CAPITAL LEASES, less current portion included above	8,200	--
COMMITMENTS AND CONTINGENCIES (Notes 1, 9 and 11)		
STOCKHOLDERS' EQUITY:		
Convertible preferred stock $.0001 par value; 5,000,000 shares authorized; no shares are issued or outstanding at July 31, 1996 and 1997	--	--
Common stock $.0001 par value; 25,000,000 shares authorized; 7,334,909 and 8,858,012 issued at July 31, 1996 and 1997, respectively	733	886
Additional paid-in capital	42,858,975	53,671,867
Deficit accumulated during the development stage	24,574,681)	(31,826,251)
Treasury stock, at cost, 11,875 shares	(102)	(102)
Total stockholders' equity	18,284,925	21,846,400
Total liabilities and stockholders' equity	$20,453,980	$ 24,260,561

The accompanying notes are an integral part of these financial statements.

ALEXION PHARMACEUTICALS, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

	For the Years Ended July 31,			For the Period From Inception (January 28, 1992) Through July 31, 1997
	1995	1996	1997	
CONTRACT RESEARCH REVENUES	$ 136,091	$ 2,640,239	$ 3,810,600	$ 6,586,930
OPERATING EXPENSES:				
Research and development	5,637,431	6,629,157	9,079,141	30,233,969
General and administrative	1,591,886	1,843,093	2,826,783	9,517,649
Total operating expenses	7,229,317	8,472,250	11,905,924	39,751,618
OPERATING LOSS	(7,093,226)	(5,832,011)	(8,095,324)	(33,164,688)
OTHER INCOME (EXPENSE), net	(29,195)	397,495	843,754	1,338,437
Net loss	$(7,122,421)	$(5,434,516)	$(7,251,570)	$(31,826,251)
NET LOSS PER COMMON SHARE (Note 2)	$ (1.76)	$ (.95)	$ (.97)	
SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE	4,055,966	5,746,697	7,450,762	

The accompanying notes are an integral part of these financial statements.

ALEXION PHARMACEUTICALS, INC.

(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Additional Paid-In
	Shares	Amount	Shares	Amount	Capital
Initial issuance of common stock	--	$ --	1,200,000	$ 120	$ 1,080
Deferred offering costs	--	--	--	--	--
Net loss	--	--	--	--	--
BALANCE, July 31, 1992	--	--	1,200,000	120	1,080
Issuance of common stock and warrants, net of issuance costs of $1,230,362	--	--	1,531,399	153	10,755,239
Conversion of advances from stockholder into common stock and warrants	--	--	160,000	16	1,199,984
Repurchase of common stock and warrants	--	--	--	--	--
Net loss	--	--	--	--	--
BALANCE, July 31, 1993	--	--	2,891,399	289	11,956,303
Issuance of common stock and warrants, net of issuance costs of $296,017	--	--	646,872	65	4,878,918
Repurchase of common stock	--	--	--	--	--
Deferred offering costs	--	--	--	--	--
Net change in unrealized losses on marketable securities	--	--	--	--	(62,883)
Net loss	--	--	--	--	--
BALANCE, July 31, 1994	--	--	3,538,271	354	16,772,338
Issuance of common stock from exercise of stock options	--	--	1,500	--	11,250
Issuance of Series A convertible preferred stock, net of issuance costs of $195,241	1,986,409	199	--	--	3,578,737
Issuance of common stock, net of issuance costs of $150,000	--	--	457,142	46	3,849,954
Net change in unrealized losses on marketable securities	--	--	--	--	46,606
Net loss	--	--	--	--	--
BALANCE, July 31, 1995	1,986,409	$ 199	3,996,913	$ 400	$ 24,258,885

	Deficit Accumulated During the Development Stage	Deferred Offering Costs	Treasury Stock, at cost		Total Stockholders' Equity (Deficiency
			Shares	Amount	
Initial issuance of common stock	$ --	$ --	--	$ --	$ 1,200
Deferred offering costs	--	(66,613)	--	--	(66,613)
Net loss	(663,764)	--	--	--	(663,764)
BALANCE, July 31, 1992	(663,764)	(66,613)	--	--	(729,177)
Issuance of common stock and warrants, net of issuance costs of $1,230,362	--	66,613	--	--	10,822,005
Conversion of advances from stockholder into common stock and warrants	--	--	--	--	1,200,000
Repurchase of common stock and warrants	--	--	10,000	(100)	(100)

Net loss	(4,067,828)	--	--	--	(4,067,828)
BALANCE, July 31, 1993	(4,731,592)	--	10,000	(100)	7,224,900
Issuance of common stock and warrants, net of issuance costs of $296,017	--	--	--	--	4,878,983
Repurchase of common stock	--	--	1,875	(2)	(2)
Deferred offering costs	--	(55,000)	--	--	(55,000)
Net change in unrealized losses on marketable securities	--	--	--	--	(62,883)
Net loss	(7,286,152)	--	--	--	(7,286,152)
BALANCE, July 31, 1994	(12,017,744)	(55,000)	11,875	(102)	4,699,846
Issuance of common stock from exercise of stock options	--	--	--	--	11,250
Issuance of Series A convertible preferred stock, net of issuance costs of $195,241	--	55,000	--	--	3,633,936
Issuance of common stock, net of issuance costs of $150,000	--	--	--	--	3,850,000
Net change in unrealized losses on marketable securities	--	--	--	--	46,606
Net loss	(7,122,421)	--	--	--	(7,122,421)
BALANCE, July 31, 1995	$(19,140,165)	$ --	11,875	$ (102)	$ 5,119,217

The accompanying notes are an integral part of these financial statements.

ALEXION PHARMACEUTICALS, INC.

(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development Stage
	Shares	Amount	Shares	Amount		
BALANCE, July 31, 1995	1,986,409	$ 199	3,996,913	400	$24,258,885	$(19,140,165)
Issuance of common stock in initial public offering, net of issuance costs of $2,468,940	--	--	2,530,000	253	18,403,307	--
Conversion of Series A convertible preferred stock into common stock	(1,986,409)	(199)	794,554	79	120	--
Issuance of common stock from exercise of stock options	--	--	13,442	1	70,361	--
Net change in unrealized losses on marketable securities	--	--	--	--	3,802	--
Compensation expense related to grant of stock options	--	--	--	--	122,500	--
Net loss	--	--	--	--	--	(5,434,516)
BALANCE, July 31, 1996	--	--	7,334,909	733	42,858,975	(24,574,681)
Issuance of common stock, net of issuance costs of $813,835	--	--	1,450,000	145	10,423,520	--
Issuance of common stock from exercise of stock options	--	--	34,937	4	83,066	--
Issuance of common stock from exercise of warrants	--	--	38,166	4	286,242	--
Net change in unrealized losses on marketable securities	--	--	--	--	20,064	--
Net loss	--	--	--	--	--	(7,251,570)
BALANCE, July 31, 1997	--	$ --	8,858,012	$ 886	$53,671,867	$(31,826,251)

	Deferred Offering Costs	Treasury Stock, at cost		Total Stockholders' Equity (Deficiency
		Shares	Amount	
BALANCE, July 31, 1995	$ --	11,875	$(102)	$ 5,119,217
Issuance of common stock in initial public offering, net of issuance costs of $2,468,940	--	--	--	18,403,560
Conversion of Series A convertible preferred stock into common stock	--	--	--	--
Issuance of common stock from exercise of stock options	--	--	--	70,362
Net change in unrealized losses on marketable securities	--	--	--	3,802
Compensation expense related to grant of stock options	--	--	--	122,500
Net loss	--	--	--	(5,434,516)
BALANCE, July 31, 1996	--	11,875	(102)	18,284,925
Issuance of common stock, net of issuance costs of $813,835	--	--	--	10,423,665
Issuance of common stock from exercise of stock options	--	--	--	83,070

Issuance of common stock from exercise of warrants	--	--	--	286,246
Net change in unrealized losses on marketable securities	--	--	--	20,064
Net loss	--	--	--	(7,251,570)
BALANCE, July 31, 1997	$ --	11,875	$(102)	$ 21,846,400

The accompanying notes are an integral part of these financial statements.

ALEXION PHARMACEUTICALS, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

	For the Years Ended July 31,			For the Period From Inception (January 28, 1992) Through July 31, 1997
	1995	1996	1997	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(7,122,421)	$(5,434,516)	$(7,251,570)	$(31,826,251)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	786,628	811,120	698,404	3,095,980
Compensation expense related to grant of stock options	--	122,500	--	122,500
Net realized loss (gain) on marketable securities	28,956	9,156	(624)	44,766
Change in assets and liabilities -				
Prepaid expenses	(14,361)	(294,269)	234,346	(232,385)
Accounts payable	(99,483)	(37,604)	446,640	727,553
Accrued expenses	(15,411)	(175,620)	801,193	1,201,770
Deferred revenue	1,000,000	--	(652,930)	347,070
Net cash used in operating activities	(5,436,092)	(4,999,233)	(5,724,541)	(26,518,997)
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Purchases of) proceeds from marketable securities, net	1,795,575	(8,443,001)	3,119,187	(5,998,578)
Purchases of equipment	(356,710)	(332,427)	(749,214)	(2,921,957)
Licensed technology costs	(32,500)	--	--	(615,989)
Patent application costs	(53,746)	(41,714)	(23,168)	(358,972)
Organization costs	--	--	--	(63,530)
Net cash (used in) provided by investing activities	1,352,619	(8,817,142)	2,346,805	(9,959,026)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from issuance of preferred and common stock	7,440,186	18,473,922	10,792,981	52,342,664
Deferred offering costs	55,000	--	--	--
Advances from stockholder	--	--	--	1,200,000
Repayments of capital lease obligations	(87,034)	(103,447)	(29,024)	(370,295)
Borrowings under notes payable	--	--	--	1,179,135
Repayments of notes payable	(273,528)	(322,333)	(320,772)	(1,049,135)
Security deposits and other assets	219,039	180,238	185,850	(81,728)
Repurchase of common stock	--	--	--	(102)
Net cash provided by financing activities	7,353,663	18,228,380	10,629,035	53,220,539
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,270,190	4,412,005	7,251,299	16,742,516
CASH AND CASH EQUIVALENTS, beginning of period	1,809,022	5,079,212	9,491,217	--
CASH AND CASH EQUIVALENTS, end of period	$ 5,079,212	$ 9,491,217	$16,742,516	$ 16,742,516
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for income taxes	$ 6,554	$ --	$ --	$ 30,684
Cash paid for interest expense	$ 176,716	$ 108,593	$ 47,328	$ 405,965
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:				
Conversion of advances from stockholder into common stock	$ --	$ --	$ --	$ 1,200,000
Equipment acquired pursuant to capital lease obligations	$ --	$ --	$ --	$ 378,064

The accompanying notes are an integral part of these financial statements.

ALEXION PHARMACEUTICALS, INC.

(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

1. Organization and Operations:

Alexion Pharmaceuticals, Inc. (the "Company") was organized in January 1992 and is engaged in the research and development of proprietary immunoregulatory compounds for the treatment of cardiovascular disorders (inflammation and perioperative bleeding associated with cardiopulmonary bypass, myocardial infarction, and stroke) and autoimmune diseases (lupus nephritis, rheumatoid arthritis, and multiple sclerosis). As an outgrowth of its core technologies, the Company is developing, in collaboration with third parties (see Note 10), non-human organ ("xenograft" organs) products designed for transplantation into humans without clinical rejection and immunoprotected retroviral vectors and producer cells for gene therapy.

The Company is in the development stage and is devoting substantially all of its efforts toward product research and development. The Company has incurred losses since inception and has cumulative net losses of $31.8 million through July 31, 1997. The Company has made no product sales to date and has recognized cumulative revenue from research grants and funding of $6.6 million through July 31, 1997. During 1996, the Company completed an initial public offering (IPO) of 2,530,000 shares of common stock resulting in net proceeds of approximately $18.4 million. During 1997, the Company completed an offering of 1,450,000 shares of common stock resulting in net proceeds of approximately $10.4 million (see Note 12). In addition, the Company has received various grants to fund certain research activities (see Note 10).

The Company will need additional financing to obtain regulatory approvals, fund operating losses, and, if deemed appropriate, establish a manufacturing, sales and marketing capability. In addition to the normal risks associated with development stage companies, there can be no assurance that the Company's research and development will be successfully completed, that adequate patent protection for the Company's technology will be obtained, that any products developed will obtain necessary government regulatory approval or that any approved products will be commercially viable. In addition, the Company operates in an environment of rapid change in technology, substantial competition from pharmaceutical and biotechnology companies and is dependent upon the services of its employees and its consultants.

The Company expects to incur substantial expenditures in the foreseeable future for the research and development and commercialization of its products. The Company's management believes that, based upon its current business plans, the cash and marketable securities aggregating $22.7 million as of July 31, 1997 will be sufficient to fund operations of the Company through at least calendar 1998.

The Company will require funds in addition to those previously described, which it will seek to raise through public or private equity or debt financings, collaborative or other arrangements with corporate sources, or through other sources of financing. The Company has no banking or other capital sources and no arrangements or commitments with regard to obtaining any further funds.

2. Summary of Significant Accounting Policies:

Cash and cash equivalents --

Cash and cash equivalents are stated at cost, which approximates market, and include short-term highly liquid investments with original maturities of less than three months.

Marketable securities --

The Company invests in marketable securities of highly rated financial institutions and investment-grade debt instruments and limits the amount of credit exposure with any one entity.

The Company has classified its marketable securities as "available for sale" and, accordingly, carries such securities at aggregate fair value. Unrealized gains or losses are included in stockholders' equity as a component of additional paid-in capital. At July 31, 1997, the Company's marketable securities had a maximum maturity of approximately one year.

The following is a summary of marketable securities at July 31, 1996 and 1997:

	Amortized Cost	Unrealized Gains (Losses)	Fair Value
U.S. government obligations	$5,268,177	$ (481)	$5,267,696
Municipal obligations	80,000	(390)	79,610
Corporate bonds	3,770,832	(11,604)	3,759,228
Total marketable securities at July 31, 1996	$9,119,009	$(12,475)	$9,106,534
U.S. government obligations	$ 498,216	$3,034	$ 501,250
Municipal obligations	4,000,535	4,145	4,004,680
Corporate bonds	1,500,038	412	1,500,450
Total marketable securities at July 31, 1997	$5,998,789	$ 7,591	$6,006,380

Equipment --

Equipment is recorded at cost and is depreciated over estimated useful lives of the assets involved. Depreciation commences at the time the assets are placed in service and is computed using the straight-line method over the useful lives of the equipment of three to four years. Maintenance and repairs are charged to expense when incurred.

Equipment under capital leases is depreciated over the lesser of the lease term or the estimated useful life.

Long-lived assets --

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of" (SFAS 121). SFAS 121 requires a company to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of this standard did not have a material impact on the Company's results of operations or financial position.

Licensed technology rights --

Licensed technology rights are amortized over the shorter of the license term or seven years, using the straight-line method. The Company reviews licensed technology rights on a periodic basis and capitalized costs which provide no future benefit are expensed. Accumulated amortization as of July 31, 1996 and 1997 amounted to $285,624 and $373,623, respectively (see Note 9).

Patent application costs --

Costs incurred in filing for patents are capitalized. Capitalized costs related to unsuccessful patent applications are expensed when it becomes determinable that such applications will not be successful. Capitalized costs related to successful patent applications are amortized over a seven year period or the remaining life of the patent, whichever is shorter, using the straight-line method. Accumulated amortization as of July 31, 1996 and 1997 amounted to $141,801 and $190,282, respectively.

Revenue recognition --

Contract research revenues are recognized as the related work is performed under the terms of the contracts and expenses for development activities are incurred. Any revenue contingent upon future funding by the Company is deferred and recognized as the future funding is expended. Any revenues resulting from the achievement of milestones would be recognized when the milestone is achieved.

Research and development expenses --

Research and development costs are expensed in the period incurred.

Use of estimates in the preparation of financial statements --

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

New accounting pronouncements --

In March 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share", which establishes new standards for computing and presenting earnings per share. SFAS 128 is effective for financial statements issued for periods ending after December 31, 1997 and earlier adoption is not permitted. The Company believes that the impact of adoption of this statement will not have a material effect on net loss per share as reported in the accompanying financial statements.

In July 1997, the Financial Accounting Standards Board issued SFAS No. 130 "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The objective of the statement is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners ("comprehensive income"). SFAS No. 130 is effective for financial statements issued for fiscal years beginning after December 15, 1997 with earlier application permitted. The Company believes that the impact of adoption of this statement will not have a significant effect on the Company's financial position and results of operations.

Net loss per common share --

Net loss per common share is computed using the weighted average number of common shares outstanding during the period. Common equivalent shares including those from stock options and warrants are excluded from the computation as their effect is antidulitive, except pursuant to the requirements of the SEC. Pursuant to these requirements, common stock issued by the Company during the 12 months immediately preceding the initial public offering, plus shares of common stock which became issuable during the same period pursuant to the grant of common stock options and warrants, have been included in the calculation of weighted average number of common shares outstanding for the period from August 1, 1994 to April 30, 1996 using the treasury stock method.

3. Equipment:

A summary of equipment as of July 31, 1996 and 1997 is as follows:

	July 31,	
	1996	1997
Laboratory equipment	$2,038,304	$2,645,553
Office equipment	112,351	230,432
Furniture	22,088	45,971
Equipment under capital leases	378,064	378,064
	2,550,807	3,300,020
Less -- Accumulated depreciation and amortization	1,958,536	2,513,525
	$ 592,271	$ 786,495

4. Security Deposits and Other Assets:

A summary of security deposits and other assets as of July 31, 1996 and 1997, is as follows:

	July 31,	
	1996	1997
Amounts held in deposit as collateral for notes payable (see Note 7)	$183,444	$ -
Other	84,134	81,728
	$267,578	$81,728

5. Accrued Expenses:

A summary of accrued expenses as of July 31, 1996 and 1997, is as follows:

	July 31,	
	1996	1997
Research and development	$ 86,369	$ 590,000
Payroll and employee benefits	23,000	354,395
Professional fees	225,990	185,281
Other	65,218	72,094
	$400,577	$1,201,770

6. Deferred Revenue:

Deferred revenue results from cash received in advance of revenue recognition under research and development contracts (see Notes 1 and 10).

7. Notes Payable:

Notes payable consist of borrowings under a lease financing arrangement with a financing company for the purchase of certain laboratory equipment. Borrowings against this line of credit are secured by the laboratory equipment and related security deposits (cash collateral equal to 30%-40% of equipment cost) (see Note 4). The Company has no additional borrowing capacity under these agreements as of July 31, 1997. Upon certain conditions, the amounts held as security deposits can be reduced and the funds released to the Company. After completion of the Company's IPO in 1996 and the Company's common stock offering in 1997, all the security deposits relating to the lease financing arrangement were returned to the Company, including earned interest. Under the terms of the financing, the Company is required to make monthly payments of principal and interest through fiscal 1998, based upon an average interest rate of approximately 15% per annum.

8. Obligations Under Capital Leases:

Obligations under capital leases principally represent leases of laboratory equipment. Under the terms of the leases the Company is required to make monthly payments of principal and interest through fiscal 1998, at interest rates ranging from approximately 10%-12% per annum.

9. License and Research & Development Agreements:

The Company has entered into a number of license and research & development agreements since its inception. These agreements have been made with various research institutions, universities, and government agencies in order to advance and obtain technologies management believes important to the Company's overall business strategy.

License agreements generally provide for an initial fee followed by annual minimum royalty payments. Additionally, certain agreements call for future payments upon the attainment of agreed to milestones, such as, but not limited to, Investigational New Drug (IND) application or Product License Approval (PLA). These agreements require minimum royalty payments based upon sales developed from the applicable technologies, if any. The Company's policy is to amortize capitalized licensed technology over a seven year period or under the license term, whichever is shorter, using the straight-line method.

Research & development agreements generally provide for the Company to fund future project research for one to four years. Based upon these agreements, the Company may obtain exclusive and non-exclusive rights and options to the applicable technologies developed as a result of the applicable research. The Company's policy is to expense research and development payments as incurred.

The minimum payments (assuming non-termination of the above agreements) as of July 31, 1997, for each of the next five years are as follows:

Year Ending July 31,	License Agreements	Research & Development Agreements
1998	$132,000	$109,811
1999	127,000	50,000
2000	122,000	50,000
2001	122,000	50,000
2002	122,000	50,000

Should the Company achieve certain milestones related to product development and product license applications and approvals, additional payments would be required if the Company elects to continue and maintain its licenses. The agreements also require the Company to fund certain costs associated with the filing of patent applications.

10. Contract Research Revenues:

Contract research revenues recorded by the Company during the three years ended July 31, 1997 consisted of research and development support under collaborations with third parties and various government grants from the National Institute of Health and the Department of Commerce.

In July 1995, the Company entered into a research and development agreement with a third party. This third party agreed to fund pre-clinical development of the Company's xenotransplant products in return for exclusive worldwide manufacturing, marketing and distribution rights of such products by paying the Company up to $7.5 million allocated as follows: (1) up to $4.0 million of the cost of pre-clinical development in four semi-annual installments of up to $1.0 million and (2) $3.5 million upon achieving certain milestones. In furtherance of this joint collaboration, the third party also purchased $4.0 million of the Company's common stock (see Note 12). For the years ended July 31, 1996 and 1997, the Company recognized $2.0 and $1.8 million, respectively of revenue related to this agreement. As of July 31, 1997, the Company had received all of the preclinical funding available under this agreement. Additionally, during fiscal 1996 the third party purchased an additional $1.8 million of common stock offered in the Company's IPO.

In December 1996, the Company entered into a license and collaborative research agreement with a third party relating to the Company's gene transfer technology. Under the agreement, the third party has been granted a worldwide exclusive license to use the Company's technology in its gene therapy products. The third party agreed to pay the Company an initial payment of $850,000 (consisting of a non-refundable license fee of $750,000 and a one-time research support payment of $100,000) and to fund a minimum of $400,000 per year for two years for research and development support by the Company. The third party will also make payments to the Company upon achievement of certain product development milestones for gene therapy products utilizing the Company's technology and pay royalties on net sales, if any. For the year ended July 31, 1997, the Company recognized $1,083,330 of revenue related to this agreement.

11. Commitments:

The Company has entered into three-year and five-year employment agreements with its executives. These agreements provide that these individuals will receive aggregate annual base salaries of approximately $916,000 as of July 31, 1997. These individuals may also receive discretionary bonus awards, as determined by the Board of Directors.

As of July 31, 1997, the Company leases its administrative and research and development facilities under three operating leases expiring in June 1998, December 1997, and March 1999 respectively, each with an option for up to an additional three years.

Future minimum annual rental payments as of July 31, 1997, under these leases and other noncancellable operating leases (primarily for equipment) are approximately $308,000 and $37,000 for the years ended July 31, 1998 and 1999, respectively.

12. Common Stock and Series A Preferred Stock:

Fiscal 1993 Bridge Financing and Private Placements --

In December 1992, the Company obtained approximately $5.2 million of equity financing (the "Bridge Financing") through the issuance of common stock and warrants to purchase shares of common stock and the conversion of advances from a stockholder. The Company sold Bridge Units (consisting of 531,424 shares of common stock and warrants to purchase shares of common stock -- see Note 13) for gross proceeds of approximately $4.0 million. In connection with the sale of the Bridge Units by the Company, $1.2 million of advances from a stockholder were converted into Bridge Units consisting of 160,000 shares of common stock and warrants to purchase shares of common stock.

In June 1993, the Company raised $8 million in a private placement through the issuance of Placement Units consisting of an aggregate of 999,975 shares of common stock and warrants to purchase shares of common stock (see Note 13).

Fiscal 1994 Private Placements --

In October and December 1993, the Company raised $5.2 million in a private placement through the sale of Placement Units consisting of an aggregate of 646,872 shares of common stock and warrants to purchase shares of common stock.

Fiscal 1995 Private Placements --

From December 1994 to March 1995, the Company raised approximately $3.8 million through the sale of 1,986,409 shares of Series A convertible preferred stock. Each share of Series A preferred stock had equal voting rights with the Company's common stock.

On July 31, 1995, the Company received gross proceeds of $4.0 million through the sale of 457,142 shares of common stock to a corporate partner (see Notes 1 and 10). The Company granted exclusive worldwide rights to market its xenotransplantation products to this shareholder in an exchange for a commitment by this shareholder to contribute to subsequent research and development, make certain milestone payments, and pay royalties on any future product sales.

Fiscal 1996 Initial Public Offering --

During fiscal 1996, the Company completed an IPO of 2,530,000 shares of common stock at a price of $8.25 per share of common stock, resulting in net proceeds of approximately $18.4 million. In connection with the Company's IPO the preferred stockholders converted all of their shares into 794,554 shares of common stock.

Fiscal 1997 Common Stock Offering --

In July, 1997, the Company completed a private placement offering for 1,450,000 shares of common stock, resulting in net proceeds of approximately $10.4 million.

Rights to Purchase Preferred Stock --

In February 1997, the Board of Directors of the Company declared a dividend of one preferred stock purchase right for each outstanding share of common stock. Under certain conditions, each right may be exercised to purchase one one-hundredth of a share of a new series of preferred stock at an exercise price of $75, subject to adjustment. The rights may be exercised only after a public announcement that a party acquired 20% or more of the Company's common stock or after commencement or public announcement to make a tender offer for 20% or more of the Company's common stock. The rights, which do not have voting rights, expire on March 6, 2002, and may be redeemed by the Company at a price of $.01 per right at any time prior to their expiration or the acquisition of 20% or more of the Company's stock. The preferred stock purchasable upon exercise of the rights will have a minimum preferential dividend of $10 per year, but will be entitled to receive, in the aggregate, a

dividend of 100 times the dividend declared on a share of common stock. In the event of a liquidation, the holders of the shares of preferred stock will be entitled to receive a minimum liquidation payment of $100 per share, but will be entitled to receive a aggregate liquidation payment equal to 100 times the payment to be made per share of common stock.

In the event that the Company is acquired in a merger, other business combination transaction, or 50% or more of its assets, cashflow, or earning power are sold, proper provision shall be made so that each holder of a right shall have the right to receive, upon exercise thereof at the then current exercise price, that number of shares of common stock of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the right.

13. Stock Options and Warrants:

Stock Options --

Under the Company's 1992 Stock Option Plan and 1992 Stock Option Plan for Directors (the Plans), incentive and nonqualified stock options may be granted for up to a maximum of 480,000 shares of common stock to directors, officers, key employees and consultants of the Company at no less than fair market value on the date of grant. In September 1996, the Plans were amended by shareholders' majority consent to increase the number of shares covered by the Plans to 1,800,000. Options generally become exercisable in equal proportions over three to four years and remain exercisable for up to ten years after the grant date, subject to certain conditions.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). SFAS 123 requires the measurement of the fair value of stock options or warrants to be included in the statement of income or disclosed in the notes to financial statements. The Company has determined that it will continue to account for stock-based compensation for employees under Accounting Principles Board Opinion No. 25 and elect the disclosure-only alternative under SFAS 123. The Company has computed the pro forma discloses required under SFAS 123 for options granted in fiscal 1996 and 1997 using the Black-Scholes option pricing model prescribed by SFAS 123. The weighted average assumptions used are as follows:

	1996	1997
Risk free interest rate	6.25%	6.25%
Expected dividend yield	0%	0%
Expected lives	5 years	5 years
Expected volatility	53%	53%

Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates of awards under these plans consistent with the method of SFAS 123, the Company's net loss and pro forma net loss per common share would have been increased to the pro forma amounts indicated below:

	1996	1997
Net loss:		
As reported	$(5,434,516)	$(7,251,570)
Pro forma	(5,540,770)	(7,815,053)
Pro forma net loss per common share:		
As reported	(.95)	(.97)
Pro forma	(.96)	(1.05)

Because SFAS 123 method of accounting has not been applied to options granted prior to August 1, 1995, the result pro forma compensation cost may not be representative of that to be expected in future years.

A summary of the status of the Company's stock options plan at July 31, 1995, 1996 and 1997 and changes during the years then ended is presented in the table and narrative below:

	1995		1996		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at August 1	448,669	$7.85	842,324	$3.45	1,207,334	$ 5.46
Granted/reissued	671,284	$2.38	405,800	$9.62	337,250	$10.37
Exercised	(1,500)	$7.50	(13,442)	$5.23	(34,937)	$ 2.38
Cancelled	(276,129)	$7.96	(27,348)	$5.46	(25,363)	$ 6.19
Outstanding at July 31	842,324	$3.45	1,207,334	$5.46	1,484,284	$ 6.63
Options exercisable at July 31	203,652	$5.99	363,492	$4.43	574,690	$ 4.98
Weighted-average fair value of options granted during the year				$5.38		$ 5.40

During 1996, options to purchase 388,300 shares of common stock were granted at an exercise price equal to the fair value of the stock at the date of grant. The weighted average exercise price of these options was $9.94 per share. The weighted average fair value of these options at the date of grant was $5.27 per option. In addition, options to purchase 17,500 shares of common stock were granted at an exercise price of $2.50 per share which was less than the fair value of the stock at the date of grant. The weighted average fair value of these options at the date of grant was $7.73 per option.

The following table presents weighted average price and life information about significant option groups outstanding at July 31, 1997.

Range of Exercise prices	Number Outstanding	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Less than $2.51	624,484	7.4	$ 2.38	331,438	$ 2.38
$2.51 - $8.24	150,000	4.9	$ 7.57	148,500	$ 7.57
$8.25 - $12.125	709,800	9.2	$10.18	94,752	$10.00
	1,484,284	8.0	$ 6.63	574,690	$ 4.98

In December 1994, the Company offered certain holders of outstanding stock options the opportunity to tender these options in exchange for stock options at an exercise price of $2.375 per share which represented the then current fair market value at such date, as determined by the Board of Directors. As such, these outstanding stock options were cancelled and reissued at an exercise price of $2.375 per share.

The Company recorded compensation expense of $122,500 on certain nonqualified stock options which were granted to employees during fiscal 1996 and immediately vested. This charge was based on the difference between the fair value of the Company's common stock on the date of grant and the option exercise price.

Warrants --

In connection with private placements in fiscal 1993 and 1994, the Company had issued warrants to purchase 1,295,363 shares of common stock at an exercise price of $15.00 per share ($12.50 in the case of the placement agent, comprising 131,249 shares of common stock). In February 1995, the Company offered warrantholders the opportunity to exchange existing warrants for new warrants that could purchase fewer shares at a reduced exercise price. Warrantholders were entitled to receive new warrants representing the right to purchase one-half the number of shares of common stock that the warrantholder was entitled to originally purchase at a reduced exercise price of $7.50. In connection with this offer, warrantholders with existing warrants to purchase 1,101,028 shares of common stock at $15.00 and $12.50 per share exchanged these warrants for new warrants to purchase 550,501 shares of common stock at $7.50 per share. The remaining original warrants continue to entitle the warrantholders to purchase 194,334 shares of common stock at $12.50 to $15.00 per share. During fiscal 1997, warrants to purchase 38,166 shares of common stock were exercised with an aggregate purchase price of $286,246.

All warrants may be redeemed by the Company for $.05 per common share following an initial public offering when a share of the Company's common stock equals or exceeds 200% of the exercise price. The warrants expire on December 4, 1997. No value was assigned to the warrants in the accompanying balance sheets.

In connection with the Company's public offering, the Company sold to its underwriter for nominal consideration, warrants to purchase 220,000 shares of common stock. These warrants are initially exercisable at a price of $9.90 per share for a period of forty-two (42) months commencing on August 27, 1997.

14. 401(k) Plan:

The Company has a 401(k) plan. Under the plan, employees may contribute up to 12 percent of their compensation with a maximum of $9,500 per employee in calendar year 1997. Effective May 1996 Company matching contributions of $.25 for each dollar deferred (up to the first 6% deferred) have been authorized by the Board of Directors. The Company had matching contributions of approximately $6,000 and $31,000 for the years ended July 31, 1996 and 1997, respectively.

15. Federal Income Taxes:

At July 31, 1997, the Company has available for tax reporting purposes, net operating loss carryforwards of approximately $13,400,000 which expire commencing in fiscal 2008. The Company also has research and development credit carryovers of approximately $1,100,000 which expire commencing in fiscal 2008. The Tax Reform Act of 1986 contains certain provisions that may limit the Company's ability to utilize net operating loss and tax credit carryforwards in any given year if certain events occur, including cumulative changes in ownership interests in excess of 50% over a three-year period. There can be no assurance that ownership changes in future periods will not significantly limit the Company's use of its existing net operating loss and tax credit carryforwards.

The Company follows SFAS No. 109, "Accounting for Income Taxes". This statement requires that deferred income tax assets and liabilities reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations.

The components of deferred income taxes as of July 31, 1997 are as follows:

Deferred tax assets:	
Net operating loss carryforwards	$ 13,400,000
Tax credit carryforwards	1,100,000
Other	370,000
Total deferred tax assets	14,870,000
Valuation allowance for deferred tax assets	(14,870,000)
Net deferred tax assets	$ --

The Company has not yet achieved profitable operations. Accordingly, management believes the tax benefits as of July 31, 1997 do not satisfy the realization criteria set forth in SFAS No. 109 and has recorded a valuation allowance for the entire deferred tax asset.

16. Subsequent Events:

In September 1997, the Company sold 400,000 shares of convertible preferred stock to an investor for gross proceeds of $10 million. This stock is convertible automatically in six months, or at the election of the holder at any time after the date of issuance, into 935,782 shares of common stock. The investor is entitled to a dividend of $2.25 per share of convertible preferred stock if this stock is held for six months. The dividend, if paid, is payable in cash or the Company's common stock at the discretion of the Company. The Company has an option to redeem the convertible preferred stock under certain conditions, as defined. Should the Company elect to exercise this option, the Company is required to fund such redemption and related dividends in cash.

In September 1997, the Company modified its July 1995 research and development agreement with a third party (See Note 10). As part of the modification, the third party made an additional $6.5 million payment to the Company for equity, exclusive licensing rights and certain xenograft manufacturing assets. Under the modified agreement, the additional $6.5 million payment consisted of: (i) a $3 million equity investment in the Company through the purchase of 166,945 shares of the Company's common stock and (ii) a $3.5 million payment to acquire exclusive licensing rights and certain xenograft manufacturing assets. Further, as part of the modified agreement, the third party and the Company agreed that the preclinical milestone payments in the original agreement are considered to have been satisfied.