

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**  
SEC Accession No. **0000949459-96-000264**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### **FOUNTAIN PHARMACEUTICALS INC**

CIK: **851199** | IRS No.: **621386759** | State of Incorporation: **DE** | Fiscal Year End: **0930**  
Type: **10KSB** | Act: **34** | File No.: **000-18399** | Film No.: **96687864**  
SIC: **2833** Medicinal chemicals & botanical products

Mailing Address  
7279 BRYAN DAIRY ROAD  
LARGO FL 33777

Business Address  
72779 BRYAN DAIRY ROAD  
LARGO FL 33777  
8135480900

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-KSB  
Annual Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the fiscal year ended September 30, 1996  
Commission File No. 0-18399

FOUNTAIN PHARMACEUTICALS, INC.

-----  
(Exact name of registrant as specified in its charter)

Delaware 62-1386759  
-----  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

7279 Bryan Dairy Road, Largo, Florida 33777

-----  
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (813) 548-0900  
-----

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

Common Stock, par value \$.001

-----  
(Title of Class)

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

None  
----

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 past 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.

(1)	Yes	X	No	-----
(2)	Yes	X	No	-----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B 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-KSB or any amendment to this Form 10-KSB. [X]

Registrant's revenues for the year ended September 30, 1996:

\$1,676,819

The aggregate market value of the Company's Common Stock held by non-affiliates of the Registrant as of December 26, 1996 was approximately \$1,357,301.

APPLICABLE ONLY TO REGISTRANTS INVOLVED  
IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes	X	No	-----
-----	---	----	-------

APPLICABLE ONLY TO CORPORATE REGISTRANTS:

The number of shares outstanding of the Registrant's class of Common Stock, par value \$.001 per share, as of December 26, 1996, was 47,516,049.

The number of shares outstanding of the Registrant's Class B Common Stock, par value \$.001 per share, as of December 26, 1996, was 90,100.

DOCUMENTS INCORPORATED BY REFERENCE:

None

Transitional Small Business Disclosure Format:

Yes	-----	No	X	-----
-----	-------	----	---	-------

2

PART I  
-----

ITEM 1  
-----

BUSINESS  
-----

Background

The Company was organized during 1989 to develop and commercialize certain proprietary compound encapsulation technologies. Following several years of continued developmental efforts, the Company was able to secure patents on several aspects of its technologies in the United States and Europe, initiate certain marketing programs and develop strategic associations with several pharmaceutical companies.

From inception through 1994, the Company remained in the development stage while experiencing substantial losses. Its principal source of capital was derived from a series of private financing transactions and an initial public offering in 1990. Sales revenues during this period were insufficient to offset the Company's operating costs and significant liabilities incurred by the Company in its past development and marketing efforts. Unable to develop any material sales revenues or secure additional proceeds from financing transactions, during 1994 the Company had substantially curtailed operations and by November 30, 1994, had filed for protection under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Middle District of Florida, Tampa Division.

While in bankruptcy, the Company was able to successfully reorganize its operations and finances. It achieved significant reductions in overhead and other costs of operations, while recognizing an increase in revenues and a redirection of its marketing efforts to focus upon its licensing arrangements.

The Company's Plan of Reorganization, which was approved and became effective on December 20, 1995 (the "Plan"), resulted in, among other things, a substantial reduction in the Company's outstanding liabilities, an infusion of capital by the Company's Chief Executive Officer through the purchase of newly issued shares of the Company's Common Stock and the Company's emergence from the bankruptcy proceedings. On July 25, 1996, the U.S. Bankruptcy Court issued a final decree stating the Court no longer has jurisdiction over matters in connection with the bankruptcy. See "ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION."

The Technology and its Applications

The Company's base of proprietary technologies involves the creation of compound encapsulation and delivery systems of subcellular size designated by

the Company as "Solvent Dilution MicroCarriers" ("SDMCs"). SDMCs are microscopic man-made spheres that can be engineered to entrap pharmaceuticals or other biologically active molecules.

These technologies are intended to enable the Company to create SDMC formulations with defined biochemical and biological properties which are designed to permit the production of stable delivery systems. The SDMCs are intended to provide enhanced compound delivery through entrapment and encapsulation of a wide variety of compounds or chemical formulations which are designed to be released in a manner that should enhance localized delivery. Once the contents of the SDMC are released, the constituent materials used to form the micro-carriers are utilized by living cells and degraded. The SDMCs are principally intended for use in connection with dermal applications, solubilization of compounds, parenteral and oral formulations and non-pressurized aerosol preparations.

Since inception, the Company's focus has been upon the creation of new proprietary products through the application of its encapsulation technologies to existing compounds, thereby in the process creating a new and enhanced product which offers advantages over a non-encapsulated format. The Company has also undertaken test encapsulations on products that are proprietary to other companies with the goal of securing appropriate licensing or other joint venture arrangements for such products.

The Company has developed a number of proprietary products utilizing its SDMC technologies. These include non-regulated consumer goods and dermatologic products consisting of sunscreens, lotions and moisturizers. These products have been marketed by the Company under the Octazome(R), LyphaZome(R) and Daylong(R) names and under other proprietary names of licensees.

The Company has also in the past pursued the development of other non-regulated products for use in a variety of applications as well as other proprietary products that are subject to FDA regulation, such as certain burn care compounds, vaccines and topical steroids. The Company has previously conducted human clinical testing of encapsulated silver sulfadiazine under strictly established medical protocols. Due to the difficulty of the protocols involved, however, insufficient numbers of patients have been tested so as to permit the extraction of conclusive test results necessary to continue seeking regulatory approval from the FDA. Due to the substantial time and expense involved in developing regulated products such as silver sulfadiazine compounds, these and other regulated products have not yet been fully developed and remain a lower corporate priority. The Company will only proceed with the development of regulated products as and to the extent that funds and/or collaborative efforts with other companies become available.

#### Business Strategy

The Company's initial focus was on the development of its own proprietary health care products using SDMCs; however, in recognition of the material expenses and delays associated with obtaining regulatory approvals for the commercialization of regulated products, the Company re-directed the principal focus of its efforts and limited resources towards the development and marketing of less regulated items including a full line of skin care products and sunscreens utilizing the SDMC technology.

In recognition of its limited capital resources, the Company's current business strategy is to continue to pursue arrangements with third parties whereby the Company can expand its markets and the costs of marketing and distribution of its products are not borne by the Company. Generally, in its licensing arrangements, the Company provides the raw materials or finished

product for distribution and sale by the third party licensee. The licensee remains responsible for all marketing and sales efforts. Pending the availability of adequate capital resources, additional products may be developed by the Company.

Management intends to focus in the near term primarily upon increasing sales of existing non-regulated products consisting of sunscreen and moisturizing products through its licensing arrangements, and utilizing such arrangements to distribute new non-regulated products which may be developed by the Company as funds and/or corporate sponsorship become available. See "Sales and Marketing."

In light of the material expense and delays associated with developing and obtaining approval of regulated products, the Company will only continue to develop such regulated products through collaborative arrangements with major pharmaceutical companies. See "Governmental Regulations." In the absence of a joint venture arrangement, corporate sponsorship or the availability of adequate funding for this purpose, further development of regulated products will likely remain a low corporate priority.

Currently, the Company principally licenses and supplies moisturizers and sunscreen products through its newly expanded licensing arrangements with pharmaceutical companies. See "Sales and Marketing." The Company recommenced its research and development efforts with the addition of a laboratory facility in the third quarter of fiscal 1996, for which funds have been made available in connection with the implementation of the Plan. See "ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION." While the Company's sales currently focus upon its line of sunscreen and moisturizer products, management believes that expansion of the Company's licensing arrangements and the scope of product development activities may offer a marketing opportunity for additional consumer products. However, there can be no assurances to that effect.

#### Sales and Marketing

From inception through 1994, the Company had undertaken its marketing activities principally through the efforts of management and independent sales and marketing consultants who initiated sales efforts with certain retail department stores, hospitals and health care institutions, retail pharmaceutical chains and scientific organizations. However, over the past three years, in view of the Company's limited financial resources, it has focused its marketing efforts on the sale of products through licensing arrangements with certain pharmaceutical companies. Management believes that these licensing arrangements offer significant marketing opportunities without imposing material operating expenses upon the Company.

The Company has three principal licensing arrangements with major European licensees. Under such arrangements the Company realizes revenues from the sale of products to the licensees who act as distributors and from royalties which are earned as the result of subsequent sales of these products by such licensees. Of its licensees, Spirig AG and Nycomed Pharma represent in the aggregate more than 85% of the sales of the Company's products. The Nycomed Pharma license, which covered markets in Norway and Denmark, was expanded in 1996 to include markets in Belgium, Holland and Luxembourg. Spirig AG, the Company's licensee for Switzerland and Germany, also expanded its arrangements with the Company to include markets in Eastern Europe. In January 1996, the Company entered into a long-term license and supply agreement with Dermik Laboratories, Inc. As of November 1996, Dermik terminated the agreement based on their interpretation of a technical provision of the agreement. The Company is not in agreement with Dermik's interpretation and have engaged counsel to determine the Company's legal remedies in this regard. The Company is actively pursuing similar marketing arrangements with other licensees, including several who had previously expressed interest in the Company's products. In May 1996, the Company entered into a seven year license and supply agreement with a pharmaceutical company in Colombia. Revenues from this agreement are expected to be recognized in the third fiscal quarter 1997. However, there can be no assurances to that effect.

#### Governmental Regulations

The Company had undertaken the development of a number of products which incorporate its SDMC technologies in regulated fields. These products remain in various stages of development, from preliminary laboratory research,

pre-clinical testing to human clinical testing and will not be subject to further development without the collaboration of a corporate sponsor or joint venture participant, or unless adequate funding otherwise becomes available for these purposes.

6

Regulation by governmental authorities in the United States and other countries is a significant factor in the production and marketing of regulated products. In order to clinically test, produce and market products for human therapeutic use, mandatory procedures and safety standards established by the FDA and comparable agencies in foreign countries must be followed.

The procedure for seeking and obtaining the required governmental approvals for a new product in a regulated field involves many steps, including animal testing to determine safety, efficacy and potential toxicity and, eventually, clinical testing on humans which is likely to continue several years and involves the expenditure of substantial resources. In the past, the Company has undertaken clinical testing in seeking approval of certain products and incurred significant costs. In light of such costs, further government approvals will not be pursued by the Company unless it is undertaken with a corporate sponsor.

Certain of the products previously developed or targeted for development by the Company are largely unregulated and do not require any regulatory approvals or filings with any regulatory agencies. This principally entails the Company's moisturizer products. Certain other products of the Company which were unregulated in the past such as its sunscreen products are now regulated as over-the-counter drugs. These products are required to receive additional testing for stability purposes and must consist of "approved materials." These products are subject to stringent recordkeeping requirements. However, no filing or pre-approval process with any regulatory agency must be complied with in connection with these products.

#### Patents and Proprietary Technology

The Company has obtained and is continuing to actively pursue patent protection for certain component elements of its proprietary encapsulation technologies, both in the United States and abroad.

The Company has obtained patents for its novel method for making lipid-based carrier vehicles or "SDMCs": U.S. Patent 5,133,965 issued on July 28, 1992, and U.S. Patent 5,269,979 issued on December 14, 1993. These patents relate to unique methodology for making relatively small-sized, homogenous populations of lipid-based carrier vehicles. A shelf-stable precursor solution containing a drug or other substance can be converted into the vehicles by simple aerosolization or dilution with water. The precursor solution can also be dried onto a surface, such as a bandage material, and rehydrated upon contact with fluids at the wound site to deliver medicaments to the wound. Counterpart patents have been allowed or issued in Israel, Spain, and Australia. The European Patent Office ("EPO") issued a Notice of Allowance on June 14, 1996. The Company is awaiting publication of the official Notice of Grant and is now in the process of preparing to validate the patent in the following European countries:

7

Austria, Belgium, France, Great Britain, Germany, Italy, Luxembourg, Netherlands, Singapore, Sweden, and Switzerland- Liechtenstein. The Company has counterpart applications on file in other foreign countries in which examination has either not yet been initiated by the patent office of the country involved

or where the Company has not yet requested examination.

The Company is pursuing additional patent coverage in the United States on other aspects of its SDMC technology. This application relates to shelf-stable precursor solutions. A patent application of the presently pending application contained similar claims to those now being pursued which were rejected over prior art, including the prior SDMC patents already owned by The Company. The Company is awaiting the first Official Action from the PTO concerning the pending application. If the claims are rejected, the Company will evaluate its options for responding, including the possibility of submitting additional data.

Obtaining patents on the pending applications will add to the Company's patent portfolio and will strengthen the Company's position with regard to competitor's efforts to design around the Company's existing patents. Although the Company continues to believe the pending applications contain patentable claims, there is no assurance that the PTO will ultimately grant these claims. Further, there are no assurances that the Company's issued patents will not be designed around, infringed upon, or successfully challenged by others in litigation. No assurance can be given that the Company will have sufficient resources to either institute or defend any action by or against the Company with respect to such patents. While the Company believes that the protection afforded by a patent would be important to its business, the Company would continue operations by relying upon trade-secrets, know-how and continuing technological advancements in order to maintain its competitive position. Trade secret protection, however, may be limited by foreign publication of the patent application and by the issuance of the patents mentioned above.

There can be no assurance the patents the Company may obtain will afford the Company commercially significant protection of its proprietary technology, provide the Company with any significant competitive advantages, or that challenges will not be instituted against the validity or enforceability of such patents, or if instituted that any such challenges will not be successful. The cost of litigation to uphold the validity and prevent infringement of a patent can be substantial. In addition, no assurance can be given that the Company will have sufficient resources to either institute or defend any action, suit or other proceeding by or against the Company with respect to any claimed infringement of a patent or other proprietary rights. In the event that the Company shall in the near future lose the protection afforded by a patent, such event could have material adverse effect on the Company's operations. There can

be no assurance that the Company's technologies will not infringe patents or other rights owned by others, license to which may not be available to the Company.

#### Competition

Competition for the development and sale of non-regulated pharmaceutical and consumer goods products is intense. The Company and its licensees will be competing against consumer goods and other companies that have substantial resources and are well positioned to subsidize the cost of product development, establish distribution channels, develop marketing plans and hire sales persons. Notwithstanding that management believes that the Company's encapsulated products provide benefits over existing products, there can be no assurances that the Company's marketing and sales efforts by virtue of its licenses will be successful in light of such intense competition.

Competition in the drug delivery and microencapsulation industries is based upon such factors as safety of products, competitive product advantages, performance, ease of application, acceptance by ultimate consumers and health care professionals, and the marketing and distribution of products. The Company's competitive position will be based upon the development of alternative approaches using new or improved formulations to accomplish desired results. Existing alternatives to the Company's technologies include conventional formulations for compounds, biodegradable polymeric systems and liposomes. Application of the Company's technologies to certain products remains in an early phase of development and no assurances can be given that any of the Company's potential products will gain sufficient competitive advantages to generate meaningful commercial demands.

The Company will be competing in an area in which there is potential for extensive technological innovation in a relatively short period of time. Competition will be based upon the Company's ability to commercialize technological developments.

Other public and private companies are engaged directly or indirectly in drug encapsulation and drug delivery research activities both for therapeutic and consumer goods applications. Many of these companies have substantially greater financial and technical resources than the Company. There can be no assurances that the Company's competitors will not succeed in developing products which are more effective or safer than those to be developed by the Company, or that such competitors may obtain government approval in less time than the Company.

#### Human Resources

The Company conducts its operations and implements its business strategy through the use of employees and consultants engaged as independent contractors.

9

Consultants are generally engaged to assist in scientific matters or in connection with sales and marketing endeavors.

As of December 26, 1996, the Company employed six (6) persons including its chief executive officer, a director of finance and administration, a technical director, warehouse and administrative personnel.

#### ITEM 2 -----

##### PROPERTIES -----

The Company owns no real property. The Company leases approximately 6,000 square feet of office, laboratory and warehouse facilities located in Largo, Florida. The lease provides for a monthly rental of \$4,500 for a term of two years, which commenced April 1, 1996, with an option for an additional one year period. This facility is adequate for the Company's current and foreseeable needs.

#### ITEM 3 -----

##### LEGAL PROCEEDINGS -----

Effective November 30, 1994, the Company filed a voluntary petition for reorganization under Chapter 11 of Title II of the United States Bankruptcy Code in the United States Bankruptcy Court for the Middle District of Florida, Tampa Division (the "Bankruptcy Court"). On May 15, 1995, the Plan was filed with the Bankruptcy Court. The Plan, as amended August 14, 1995, was confirmed on November 20, 1995, and became effective on December 20, 1995. The United States Bankruptcy Court issued a final decree on July 25, 1996. As such, the Court no longer has jurisdiction over matters in connection with the bankruptcy.

#### ITEM 4 -----

##### SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS -----

None.

10

#### PART II -----



MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

A. Market Information

The Company's Common Stock presently trades on the OTC Bulletin Board under the symbol "FPHI". Until May 31, 1994, the Company's Units, Common Stock, Class A Warrants and Class B Warrants were listed on the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ").

Effective May 31, 1994, the Company's securities were delisted from The NASDAQ SmallCap Market(sm) because, as a result of declining equity and assets, the Company no longer satisfied the quantitative listing standards required for continued listing. During May 1995, the Company's Units, and Class A and Class B Warrants expired.

The following table sets forth certain information with respect to the high and low market prices of the Company's Common Stock for the fiscal years ended September 30, 1995 and 1996, and for the first quarter of its fiscal year ended September 30, 1997. No trading market exists for shares of the Company's Class B Common Stock.

Fiscal 1995	HIGH	LOW
-----	----	---
First Quarter	.075	.01
Second Quarter	.065	.008
Third Quarter	.065	.065
Fourth Quarter	.175	.018
Fiscal 1996	HIGH	LOW
-----	----	---
First Quarter	.063	.016
Second Quarter	.547	.188
Third Quarter	.25	.188
Fourth Quarter	.172	.109
Fiscal 1997	HIGH	LOW
-----	----	---
First Quarter (October 1-December 26)	.20	.05

The closing price of the Company's Common Stock on December 26, 1996 was \$.0625.

The high and low prices (based on the average bid and ask prices) for the Company's Common Stock, as reported by The NASDAQ SmallCap Market(sm) and the OTC Bulletin Board, as applicable. Such prices are inter-dealer prices without retail mark-ups, mark-downs or commissions and may not represent actual transactions.

11

B. Holders

Records of the Company's stock transfer agent indicate that as of December 26, 1996, the Company had 439 record holders of its Class B Common Stock and Common Stock. Since a significant number of the shares of the Company are held by financial institutions in "street name," it is likely that the Company has significantly more stockholders than indicated above. The Company estimates that it has approximately 3,900 record holders, including such shares held in "street name."

C. Dividends

The Company has not paid any cash dividends, to date, and does not anticipate or contemplate paying cash dividends in the foreseeable future. Under the Plan, security holders may not receive any distribution or dividend until and unless all prior claims payable under the Plan are paid in full. To the extent that the Company is permitted to pay dividends, it is the present intention of management to utilize all available funds for working capital of the Company.

## ITEM 6

-----

## MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

-----

## Background

-----

During the quarter ended December 31, 1995, the Company emerged from bankruptcy proceedings which commenced in November 1994. During and subsequent to the bankruptcy proceedings, the principal source of the Company's revenues has been from sales of its sunscreen products to licensees who act as distributors and from royalties which are earned as the result of the subsequent sales of these products by such distributors.

During the fiscal year ended September 30, 1995 ("Fiscal 1995") while the Company was in bankruptcy proceedings, management restructured the Company and significantly reduced its overall cost structure such that revenues derived from sales and royalties were sufficient to cover the Company's costs. As such, management no longer considers itself to be in the development stage.

The Company's Plan of Reorganization (the "Plan"), which became effective on December 20, 1995, resulted in, among other things, a substantial reduction in the Company's outstanding liabilities, infusion of capital by the Company's Chief Executive Officer through the purchase of newly issued shares of the Company's Common Stock and the Company's emergence from the bankruptcy proceedings. The U.S. Bankruptcy Court entered its final decree on July 25, 1996, and as such, the Court no longer has jurisdiction over matters in connection with the bankruptcy.

## Results of Operations

During the fiscal year ended September 30, 1996, the Company realized net income of \$302,634 on revenues of \$1,676,819, compared to net income of \$231,075 on revenues of \$1,158,698 for the fiscal year ended September 30, 1995. The increased net income was a result of the Company's increased sales over fiscal 1995 to its European licensees, royalties, technical service fees, and gains recorded pursuant to the Plan.

Revenues for fiscal 1996 of \$1,676,819 represented an increase of \$518,121 or 44.7% from revenues of \$1,158,698 during fiscal 1995. The increase in revenues was a result, primarily, of the expanding acceptance of the Company's products by dermatologists in northern Europe and royalties from its European licensees.

During the fiscal year ended September 30, 1996, the Company incurred operating expenses of \$809,629, a 28.9% increase over operating expenses of \$628,178 for the prior year ending September 30, 1995. This increase in expenses was primarily due to legal and accounting fees relative to regulatory filing requirements, insurance costs, increased marketing efforts, start up expense

relating to the Company's new R&D facilities, and the re-engaging of the Company's technical director.

The Company emerged from bankruptcy proceedings by virtue of a confirmed plan effective December 20, 1995. The U.S. Bankruptcy Court entered its final decree on July 25, 1996, and as such, the Court no longer has jurisdiction over matters in connection with the bankruptcy. Following its emergence from bankruptcy, and for the near term, the Company's operations will continue to focus upon increasing sales through its existing licensees and the active pursuit of new license arrangements and expanding upon these associations. Management believes that the sales of its products will continue to increase as the Company gains access through its licensing arrangements to broader geographic markets. However, there can be no assurances to this effect.

#### Liquidity and Capital Resources

From inception through the quarter ended June 30, 1994, the Company's principal sources of working capital were a series of private financing transactions and an initial public offering in 1990. As a result of the Company's declining equity and assets, the Company's securities were delisted from The NASDAQ SmallCap Market(sm) during May 1994. The securities have since traded on the less liquid market of the OTC Bulletin Board, which has limited the Company's efforts to obtain additional working capital through the sale of its securities.

During the period from the quarter ended June 30, 1994 throughout the bankruptcy proceedings, the Company's operations were funded primarily through sales of products and from royalties. Under the terms of the Plan, the liabilities of the Company were reduced by approximately 55% and the Company obtained working capital of \$250,000 as the result of the purchase by the Company's Chief Executive Officer of 25,000,000 shares of the Company's Common Stock at a purchase price of \$.01 per share in December 1996. See "ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS."

As of September 30, 1996, the Company had working capital of \$234,237, an increase of \$79,182 from the level of working capital of \$155,055 as of September 30, 1995. Such increase in working capital is primarily attributable to the 55% reduction in the Company's liabilities, an infusion of capital from the sale of the Company's Common Stock pursuant to the Plan and trade receivables.

Under the Plan, the Company was subject to \$319,278 of pre- bankruptcy liabilities to be paid under the Plan over a maximum of thirty-three months which commenced February 1996. Presently, pre- bankruptcy liabilities amount to \$236,142. Payments pursuant to the Plan were current as of September 30, 1996, and management expects all such required payments to be made on a timely basis.

As of October 17, 1996, the Company was granted a \$100,000 line of credit at an interest rate of prime plus .5% from First Union National Bank of Florida. This line of credit is secured by the Company's accounts receivable and inventory. The Company intends to utilize this line of credit to purchase additional inventory and/or fund the Company's research and development efforts, as necessary.

Providing that operations reflect continued growth, the Company may attempt to obtain financing through the sale of additional securities. This would require a restructuring of the Company's capital structure which currently has insufficient authorized capital stock available to facilitate any such financing transaction. Additional capital may be utilized to increase the Company's research and development efforts and to seek collaborative associations with pharmaceutical companies. Increases in equity and assets may also enable the Company to relist its securities on NASDAQ and thereby regain access to a more liquid trading market. However, there can be no assurances that the Company's business strategy can be realized.

Historically, the Company's unexercised warrants had been a potential source of capital financing for the Company. However, all previously existing Class A, B, C and D Warrants have expired. The 2,583,334 common stock warrants presently vested and outstanding bear exercise prices ranging from \$.04 to \$2.50. Given the market price of the Company's Common Stock, it is feasible that some of these Warrants can be exercised, but there can be no assurances in this matter.

In addition to the Warrants identified above, the Company has also issued 2,033,333 additional Warrants to its existing directors and certain employees which vest over a two year period commencing in July 1997.

Based upon the Company's current capital structure, an exercise of all of the issued and outstanding Warrants would not be possible since the number of Warrants (assuming full vesting) exceeds the number of shares that remain authorized and available for issuance. An inability to issue shares upon the exercise of the Warrants could conceivably delay any funding which the Company could otherwise receive from the exercise of such Warrants pending adequate capitalization. Management does not believe this is likely to occur given the vesting provisions of certain of the outstanding Warrants, the present market price of the Company's Common Stock and since a restructuring of the Company's capital structure would likely occur prior to any exercise of such Warrants.

#### Effects of Inflation

The Company does not expect inflation to materially effect its results of operations, however, it does expect that its operating costs and the cost of capital equipment to be acquired in the future may be subject to general economic and inflationary pressures.

#### ITEM 7

-----

#### FINANCIAL STATEMENTS

-----

Financial statements are included under Item 13(A) and may be found at pages F-1 through F-21.

#### ITEM 8

-----

#### CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL

-----

#### DISCLOSURE

-----

None.

## PART III

## ITEM 9

-----  
 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
 -----

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT  
 -----

A. Identification of Executive Officers and Directors  
 -----

The following table sets forth certain information with respect to each of the executive officers and directors of the Company. Each of the directors named below will serve until the next annual meeting of the stockholders or until their successors are elected or appointed and qualified.

Name	Age	Position(s) Held
----	---	-----
John C. Walsh	56	President, Chief Executive Officer, Chief Financial Officer and Chairman
James L. Goddard, M.D.	73	Director
James E. Fuchs	69	Vice Chairman, Treasurer, Secretary and Director
James Vattel	66	Director

B. Business Experience  
 -----

John C. Walsh

John C. Walsh has been the President, Chief Executive Officer and a director of the Company since 1992 and Chairman of the Board since 1994. From 1989 to 1992, Mr. Walsh was an investor in several private business interests. Prior to 1989, Mr. Walsh held various positions with Merck & Co., Inc., a leading international pharmaceutical company, for over twenty years. Among the positions held, Mr. Walsh served as Senior Vice-President, Europe, with responsibility for operations representing approximately 25% of Merck's business, and as Vice-President, Latin-America, with responsibility for regional operations. He served as Managing Director of Merck, Sharpe & Dohme, Brazil, and Merck, Sharpe & Dohme, Venezuela, subsidiaries of Merck. He also has broad experience in the financial management and accounting fields. Mr. Walsh holds a bachelor of science degree from Villanova University and is a Certified Public Accountant.

James E. Fuchs

Mr. Fuchs has been a member of the Company's Board of Directors since November 1990 and assumed the office of Treasurer of the Company in April 1992.

Mr. Fuchs is Chairman and Chief Executive Officer of The Grenfox Group, Inc., a company in the business of developing environmentally friendly products for the ink and coatings market. He was Chairman and Chief Executive Officer of Fuchs, Cuthrell & Co., Inc., an international human resources consulting firm specializing in corporate executive outplacement and post-career planning from 1970 to 1994. Among the executive positions he has held are managerial and account executive positions for the National Broadcasting Company; Vice President and Senior Corporate Marketing Officer of Curtis Publishing Company; Vice President, Marketing and Communications, and Director of Mutual Broadcasting Systems; President and Director of Mutual Sports, Inc., and Senior Vice President, Marketing, and a Director for a specialized executive consulting firm. Mr. Fuchs is a Yale graduate and a two-time U.S. Olympic medalist and gold medalist in the shot put and discus in the first Pan American Games. He is a member of the Board of Directors of the United States Olympic Committee.

James L. Goddard, M.D.

James L. Goddard, M.D., has been a director of the Company since December 1, 1989. Dr. Goddard received his pre-medical education at Temple University. He received his M.D. degree from George Washington University School of Medicine in 1949 and a Masters of Public Health from Harvard School of Public Health in 1954. From 1972 to the present, Dr. Goddard has been a consultant to the pharmaceutical industry in addition to being Chairman of the Board of Ormont Drug and Chemical Company from 1972 until 1977 and Chairman of the Board of Keystone Medical Services, Inc., from 1983 until 1988. From 1970 to 1972, Dr. Goddard was employed as Program Advisor (Family Planning) for the Ford Foundation in New Delhi, India, and from 1968 to 1970 as Vice-President of Health Services, EDP Technology. In addition, Dr. Goddard served as a Commissioner of the United States Food and Drug Administration from 1966 to 1968 and in various other governmental positions prior thereto.

James Vatell

James Vatell has been a director of the Company since December 1995. He has been a shareholder in the Company for several years and has been aiding the Company on an uncompensated basis on a number of business development issues. Mr. Vatell is a former USAir captain and a graduate of Embry-Riddle Aviation Institute. He is an investor and adviser to a number of private business enterprises.

Directors' Fees

The Company has adopted a policy of granting fees of \$500 per meeting to each outside director who attends a regularly scheduled or special meeting of its Board of Directors. In addition, the Company reimburses out-of-state directors for their cost of travel and lodging to attend such meetings.

18

Involvement in Certain Legal Proceedings

None.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires directors and certain officers of the Company, as well as persons who own more than 10% of a registered class of the Company's equity securities ("Reporting Persons"), to file reports with the Securities and Exchange Commission. The Company believes that during Fiscal 1996, all Reporting Persons timely complied with all filing requirements applicable to them.

ITEM 10

EXECUTIVE COMPENSATION

<TABLE>  
<CAPTION>

SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation		Long Term Compensation
	Fiscal Year Ended September 30	Salary (\$)	Options/SARS (#)
John C. Walsh(1) Chairman, Chief Executive Officer and President	1996 1995 1994	\$137,308 \$125,000 \$138,462	-0- -0- -0-

(1) Pursuant to the Plan, Mr. Walsh is entitled to receive aggregate payments of \$21,615 payable commencing February 1996 and ending August 1998 as

accrued and unpaid salary and expenses. As of September 30, 1996, \$8,804 of the \$21,615 had been paid.

OPTION/SAR GRANTS TABLE

Option/SAR Grants in the Last Fiscal Year

Individual Grants					
Name	Fiscal Year	Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date
<S> John C. Walsh Chairman, Chief Executive Officer and President	<C> 1996(1)	<C> -0-	<C> -0-	<C> -0-	<C> -0-

(1) No options were granted during Fiscal Year 1996.

<TABLE>  
<CAPTION>

OPTION/SAR EXERCISES AND YEAR-END VALUE TABLE

Aggregated Options/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Value

Name	Fiscal Year	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options/SARs at FY-End (#)	Value of Unexercised In-the-Money Options/SARs at FY-End (\$)
				Exercisable/Unexercisable	Exercisable/Unexercisable
<S> John C. Walsh Chairman, Chief Executive Officer, and President	<C> 1996	<C> -0-	<C> -0-	<C> (U) 0 / (E) -0-	<C> (E) \$0 / (U) -0-

</TABLE>

Grant of Warrants to Certain Directors

In December 1995, the Company granted warrants to purchase its Common Stock to certain directors and cancelled all outstanding Warrants held by such persons in accordance with the following schedule:

Name	Number of Granted Warrants(1)	Number of Warrants Cancelled
James Goddard, M.D.	500,000	100,000
James Fuchs	500,000	350,000
James Vatell(2)	300,000	-0-

(1) The Warrants were granted as of December 18, 1995, at an exercise price of \$.04 per share, which was equal to the closing price of the Company's Common Stock on such date as traded on the OTC Bulletin Board. The Warrants vest pro rata over a three year period commencing July 1996.

(2) Represents Warrants granted in connection with Mr. Vatell joining the Board of Directors as of December 18, 1995.

These Warrants were not granted under the Company's stock option plan. The Warrants granted, as well as the underlying shares of common stock, constitute "restricted securities" under Rule 144 promulgated under the Securities Act of

## ITEM 11

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of December 26, 1996, information with respect to the securities holdings of all persons which the Company, pursuant to filings with the Securities and Exchange Commission, has reason to believe may be deemed the beneficial owners of more than 5% of the Company's outstanding Common Stock and Class B Common Stock. The following table indicates the beneficial ownership of such individuals numerically calculated based upon the total number of shares of Common Stock and Class B Common Stock outstanding and alternatively calculated based upon the percentage voting power allocated to such share ownership taking into account the disproportionate voting rights attributed to the Class B Common Stock. Also set forth in the table is the beneficial ownership of all shares of the Company's outstanding stock, as of such date, of all officers and directors, individually and as a group.

Name and Address -----	Amount & Nature of Beneficial Ownership(1) -----	% of Ownership -----	% of Voting Power(2) -----
James E. Fuchs 565 Park Avenue New York, NY 10021	166,667(3)	*	*
James L. Goddard, M.D. 347A Avenue Sevilla Laguna Hills, CA 92653	235,667(3)	*	*
John C. Walsh 7279 Bryan Dairy Road Largo, FL 33777	25,022,000	52.56%	52.17%
James Vatell 29 Richmond Hill Road Greenwich, CT 06831	465,000(4)	*	*
All Directors and Officers as a Group (4 Persons)	25,889,334(5)	53.89%	53.49%

(1) Except as otherwise indicated, includes total number of shares outstanding and the number of shares which each person has the right to acquire, within 60 days through the exercise of Warrants pursuant to Item 403 of Regulation S-B and Rule 13d-3(d)(1), promulgated under the Securities Exchange Act of 1934. Also reflects 47,606,149 shares of the Company's Common Stock (including Class B Common Stock) outstanding as of the date of this Report.

21

(2) This column takes into account the disproportionate voting rights granted to the holders of the Class B Common Stock. Holders of the Class B Common Stock are entitled to five (5) votes for every share held.

(3) Does not include Warrants to purchase 333,333 shares at an exercise price of \$.04 per share, which have not vested.

(4) Does not include Warrants to purchase 200,000 shares at an exercise price of \$.04 per share granted to Mr. Vatell in connection with joining the Board of Directors, which have not vested.

(5) Does not include Warrants to purchase an aggregate of 866,666 shares at an exercise price of \$.04, which have not vested.

\* Less than 1%.



CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Grant of Warrants to Directors

During the first quarter of fiscal 1996, the Company issued Warrants to certain directors, among others. See "ITEM 10 EXECUTIVE COMPENSATION - Grant of Warrants to Certain Directors."

Purchase of Common Stock

In order to infuse capital into the Company in accordance with the Plan, in December 1995, Mr. Walsh, the Company's Chief Executive Officer, purchased 25,000,000 restricted shares of the Company's Common Stock at a purchase price of \$.01 per share, which was in excess of the market price of the Company's Common Stock on the date the Plan was submitted to the Bankruptcy Court.

Payment of Accrued Salary

In accordance with the Plan, Mr. Walsh is entitled to receive from the Company \$21,615 payable commencing February 1996 and ending August 1998 as unpaid salary and expenses that were accrued during the period from October 1994 through November 1994. As of September 30, 1996, \$8,804 of the \$21,615 had been paid. See "ITEM 10 - EXECUTIVE COMPENSATION."

Line of Credit Guaranty

The line of credit obtained by the Company on October 17, 1996 is secured by the Company's accounts receivable and inventory, and is further secured by an unconditional guaranty by Mr. Walsh, the Company's Chief Executive Officer. See "ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION - Liquidity and Capital Resources."

22

Directors' Fees

The Company has adopted a policy of granting fees and reimbursing expenses of outside directors who attend regularly scheduled or special meetings of its Board of Directors. See "ITEM 9 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT."

ITEM 13

EXHIBITS, LIST AND REPORTS ON FORM 8-K

A. Financial Statements filed as part of this Report:

	Page Reference
Report of Independent Auditors on Financial Statements of Fountain Pharmaceuticals, Inc.	F-1
Balance Sheets as of September 30, 1996 and 1995.	F-2
Statements of Operations for the years ended September 30, 1996 and 1995.	F-3
Statements of Stockholders' Equity (Deficit) for the years ended September 30, 1996 and 1995.	F-4
Statements of Cash Flows for the years ended September 30, 1996 and 1995.	F-5 thru F-6
Notes to Financial Statements of Fountain Pharmaceuticals, Inc. for the years ended September 30, 1996 and 1995.	F-7 thru F-21

B. Financial Statement Schedules:

None.

C. The following Exhibits are filed as part of this Report:

Exhibit No. -----	Description -----
2.1	Amended Plan of Reorganization dated August 14, 1995 (Incorporated by reference to the Company's Current Report on Form 8-K filed on March 28, 1996)
2.2	Amended Disclosure Statement dated August 14, 1995 (Incorporated by reference to the Company's Current Report on Form 8-K filed on March 28, 1996)
3.1	Certificate of Incorporation of the Registrant, filed March 23, 1989 (Incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-1 filed on January 4, 1990, Registration Number 33-32824 (the "Form S-1"))
3.2	Certificate of Amendment of Certificate of Incorporation, filed April 10, 1989 (Incorporated by reference to Exhibit 3.2 of the Form S-1)
3.3	Restated Certificate of Incorporation of the Registrant, filed November 13, 1989 (Incorporated by reference to Exhibit 3.3 of the Form S-1)
3.4	By-Laws of the Registrant (Incorporated by reference to Exhibit 3.4 of the Form S-1)
4.1	Copy of Specimen Stock Certificate (Incorporated by reference to Exhibit 4.1 of the Form S-1)
10.1	Transfer of Technology Agreement (Incorporated by reference to Exhibit 10.3 of the Form S-1)
10.2	Stock Option Plan (Incorporated by reference to Exhibit 10.4 of the Form S-1)
10.3	Loan Agreement by and between the Registrant and First Union National Bank of Florida dated October 17, 1996 (Filed herewith)
27	Financial Data Schedule (Electronic filing only)

Reports on Form 8-K  
-----

The Company filed the following Current Report on Form 8-K during the last  
quarter of the fiscal year ended September 30, 1996: None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the  
Registrant certifies that it has reasonable grounds to believe that it meets all  
the requirements of filing on Form 10-KSB, and has duly caused this Form 10-KSB

to be signed on its behalf by the undersigned, thereunto duly authorized on the

FOUNTAIN PHARMACEUTICALS, INC.

Date: December 30, 1996  
-----

By: /s/ John C. Walsh  
-----

John C. Walsh, President  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-KSB has been signed by the following persons in the capacities and on the dates indicated.

Directors -----	Title -----	Date ----
/s/ John C. Walsh ----- John C. Walsh	President, Chief Executive Officer (Principal Accounting Officer)	December 30, 1996
/s/ James Fuchs ----- James Fuchs	Vice Chairman, Secretary-Treasurer	December 30, 1996
/s/ James L. Goddard ----- James L. Goddard	Director	December 30, 1996
/s/ James Vatell ----- James Vatell	Director	December 30, 1996

Independent Auditors' Report  
-----

Board of Directors  
Fountain Pharmaceuticals, Inc.  
Largo, Florida

We have audited the accompanying balance sheet of Fountain Pharmaceuticals, Inc. (the "Company"), as of September 30, 1996 and the related statements of operations, stockholders' equity and cash flows for each of the years in the two-year period then ended. 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 Fountain Pharmaceuticals, Inc., as of September 30, 1996 and the results of its operations and its cash flows for each of the years in the two-year period then ended in conformity with generally accepted accounting principles.

AIDMAN, PISER & COMPANY, P.A.

Tampa, Florida  
November 8, 1996

FOUNTAIN PHARMACEUTICALS, INC.  
BALANCE SHEET  
SEPTEMBER 30, 1996

## ASSETS

	1996
	-----
Current assets:	
Cash and cash equivalents	\$ 66,647
Accounts receivable	236,032
Inventories (Notes 3 and 4)	104,866
Prepaid expenses	46,574
	-----
Total current assets	454,119
Furniture and equipment, less accumulated depreciation (\$232,136, 1996; \$216,366, 1995)	31,924
Patent costs, less accumulated amortization (\$22,064, 1996; \$18,824 1995)	138,575
Other assets	6,250
	-----
Total assets	\$ 630,868
	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

	1996
	-----
Current liabilities:	
Current portion of (Note 4):	
Liabilities not subject to compromise	\$ 26,808
Liabilities subject to compromise	84,983
Accounts payable and accrued expenses	108,091
	-----
Total current liabilities	219,882
	-----
Liabilities not subject to compromise, non-current (Note 4)	32,053
	-----
Liabilities subject to compromise, non-current (Note 4)	92,298
	-----
Commitments and Contingency (Notes 5 and 8)	
Stockholders' equity (deficit) (Note 5):	
Preferred stock, par value \$.001, 2,000 shares authorized	--
Common stock, par value \$.001,  50,000,000 shares authorized; 47,516,049 issued and outstanding (one vote per share)	47,516
Class B common stock; par value \$.001, 5,000,000 shares authorized; 90,100 shares issued and outstanding (five votes per share)	90
Additional paid-in capital	14,529,102
Accumulated deficit	(14,290,073)
	-----
Total stockholders' equity (deficit)	286,635
	-----
Total liabilities and stockholders' equity	\$ 630,868

FOUNTAIN PHARMACEUTICALS, INC.  
STATEMENTS OF OPERATIONS

	Years ended September 30,	
	1996	1995
<S>	<C>	<C>
Revenue (Note 2)	\$ 1,676,819	\$ 1,158,698
Cost of sales	854,210	483,640
Gross profit	822,609	675,058
Operating expenses:		
Research and development	95,466	37,160
General and administrative	360,242	285,103
Selling	312,358	247,082
Depreciation and amortization	41,563	58,833
	809,629	628,178
Income from operations	12,980	46,880
Other income (expenses):		
Interest expense	( 20,680)	-
Other income	4,635	-
Loss on disposal of equipment	( 2,830)	-
Reorganization expenses (Note 1)	( 26,232)	( 60,441)
	( 45,107)	( 60,441)
Loss before income taxes and extraordinary item	( 32,127)	( 13,561)
Income taxes (Note 7)	-	-
Loss before extraordinary item	( 32,127)	( 13,561)
Extraordinary gain, net of \$0 income taxes (Note 1)	334,761	244,636
Net income	\$ 302,634	\$ 231,075
Earnings per share:		
Primary and fully diluted earnings per common share:		
Income (loss) before extraordinary item	\$ -	\$ -
Extraordinary gain	.01	.01
Net income	\$ .01	\$ .01
Weighted average number of shares outstanding:		
Primary	42,073,362	22,606,149
Fully diluted	42,263,361	27,919,875

See notes to financial statements  
F- 3

FOUNTAIN PHARMACEUTICALS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (NOTE 5)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

<TABLE>  
<CAPTION>

Class B

	Common Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
<S> Balances, October 1, 1994	<C> 22,516,049	\$ 22,516	<C> 90,100	\$ 90	\$ 14,304,102	(\$14,823,782)	(\$497,074)
Net income for the year	-	-	-	-	-	231,075	231,075
Balances, September 30, 1995	22,516,049	22,516	90,100	90	14,304,102	(14,592,707)	(265,999)
Stock issued pursuant to reorganization plan	25,000,000	25,000	-	-	225,000	-	250,000
Net income for the year	-	-	-	-	-	302,634	302,634
Balances, September 30, 1996	47,516,049	\$ 47,516	90,100	\$ 90	\$ 14,529,102	(\$14,290,073)	\$ 286,635

</TABLE>

See notes to financial statements  
F- 4

FOUNTAIN PHARMACEUTICALS, INC.  
STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	Years Ended September 30,	
	1996	1995
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 302,634	\$ 231,075
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Extraordinary gain	( 334,761)	( 244,636)
Depreciation	38,321	49,679
Loss on disposal of assets	2,831	-
Write-down of inventory	68,535	-
Amortization	3,241	3,350
Write-off of abandoned patents	-	5,804
Increase (decrease) in cash due to changes in assets and liabilities:		
Accounts receivable, trade	( 168,793)	25,513
Inventories	9,545	40,174
Prepaid expenses	( 23,397)	( 18,767)
Other assets	( 2,285)	15,561
Accounts payable and accrued expenses	7,585	( 9,989)
Net cash provided by (used in) operating activities	( 96,544)	97,764
Cash flows from investing activities:		
Deferred patent costs incurred	( 55,717)	( 16,740)
Acquisition of furniture and equipment	( 7,671)	( 4,579)
Net cash used in investing activities	( 63,388)	( 21,319)
Cash flows from financing activities:		
Proceeds from:		
Issuance of common stock	250,000	-
Repayment of:		
Amounts not subject to compromise	( 16,814)	-
Amounts subject to compromise	( 88,852)	-
Net cash provided by financing activities	144,334	-
Increase (decrease) in cash and cash equivalents	( 15,598)	76,445
Cash and cash equivalents, at beginning of year	82,245	5,800
Cash and cash equivalents, at end of year	\$ 66,647	\$ 82,245

</TABLE>

(Continued)  
F- 5

FOUNTAIN PHARMACEUTICALS, INC.  
STATEMENTS OF CASH FLOWS (CONTINUED)

Supplemental schedule of cash flow information  
-----

Interest paid was \$20,680 and \$0 for the years ended September 30, 1996 and 1995, respectively.

Operating cash receipts and payments resulting from the bankruptcy reorganization during the year ended September 30, 1995 were \$0 and \$46,048, respectively.

See notes to financial statements.

F- 6

FOUNTAIN PHARMACEUTICALS, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

1. Nature of business, basis of presentation and summary of significant accounting policies:

Nature of business:

Fountain Pharmaceuticals, Inc., (the "Company") incorporated in the State of Delaware on March 23, 1989, was organized to develop an advanced compound delivery system (compound encapsulation) for use in health care, agricultural, veterinary and consumer market items using technologies developed privately and assigned to the Company. These technologies involve development of man-made spheres composed of soybean lipids that are engineered to entrap pharmaceuticals or other biologically active molecules within the membranes of the soybean lipids, hence a compound delivery encapsulation system known as "Solvent Dilution Micro Carriers" ("SDMC's").

The Company's initial focus was on the development of its own proprietary health care products using SDMCs' however, in recognition of the material expense and delays associated with obtaining regulatory approvals for the commercialization of regulated products, the Company re-directed the principal focus of its efforts and limited resources towards the development and marketing of less regulated items including a full line of skin-care products and sun-screens using the SDMC technology. Additionally, the Company previously devoted efforts towards securing research and development contracts for development and enhancement of products using SDMC technology on behalf of third party companies in the ethical or consumer product businesses, with the ultimate goal of participation in royalties or other forms of compensation.

The principal source of the Company's current revenues are from sales of its sun-screen products to distributors and royalties which are earned as the result of the subsequent sale of these products by the distributors.



FOUNTAIN PHARMACEUTICALS, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

1. Nature of business, basis of presentation and summary of significant accounting policies (continued):

Chapter 11 Reorganization:

On November 30, 1994, the Company filed a voluntary petition for reorganization under Chapter 11 of Title II of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Middle District of Florida, Tampa Division, (the "Bankruptcy Court").

The Company's Chapter 11 filing resulted primarily from historical losses incurred by the Company and judgments entered against the Company associated with default under a lease agreement and default of a settlement of a breach of employment contract claim.

On May 15, 1995, the Debtor's Disclosure Statement and Plan for Reorganization (collectively referred to as "The Reorganization Plan" or "the Plan") were filed with the Bankruptcy court. The Reorganization Plan, as amended August 14, 1995, was confirmed on November 20, 1995 and became effective on December 20, 1995 (the "Effective Date"). Since confirmation and effectiveness of the Reorganization Plan, the Company has resumed normal operations. On July 25, 1996, the U.S. Bankruptcy Court issued a final decree and therefore the court no longer has jurisdiction over matters in connection with the bankruptcy.

The essential terms of the plan are as follows:

Secured claims, principally amounts due pursuant to the Company's lease agreement for which said amounts were secured by a security interest in inventory and equipment, will be paid in full with interest at 9 1/2 percent over a thirty-three month term.

Priority wage claims were paid in quarterly installments over a six-month period, without interest.

Unsecured claims will be paid at 50 percent of the allowed amounts of such claim, without interest, in eleven quarterly installments.

1. Nature of business, basis of presentation and summary of significant accounting policies (continued):

Chapter 11 Reorganization:

Shareholders have retained their interest, without alteration, except as follows: Equity security holders will receive no distribution or dividend until and unless all prior claims are paid in full as provided above. Pursuant to the Plan, the Company issued 25,000,000 shares of common stock for \$.01 per share, the rate at which the shares were trading as of the date the amended plan was filed with the Bankruptcy Court, for a total of \$250,000. These shares have been issued to an individual who is the President and majority shareholder of the Company.

At the date of effectiveness of the Plan, and thereafter, the Company continued to account for its assets at their historical cost basis (did not adopt "Fresh Start" accounting). Liabilities were recorded in the accompanying 1995 balance sheet at their estimated allowed amount (allowed by the Bankruptcy Court). The difference between those amounts and the amounts previously recorded were accounted for as a \$244,636 extraordinary gain in the 1995 statement of operations.

At the date of the Plan's effectiveness (December 20, 1995), the difference between the net present value of the settled amount of liabilities and the estimated allowed amounts (recorded at September 30, 1995) have been recorded as a \$334,761 extraordinary gain in the 1996 statement of operations. All prepetition liabilities are classified in the accompanying September 30, 1996 and 1995 balance sheets (current or long-term) based upon the terms of the confirmed Reorganization Plan. Other reorganization costs of \$26,232 and \$60,441 (primarily legal fees) are also separately reported in the 1996 and 1995 statement of operations respectively.

A final decree was issued July 25, 1996 by the bankruptcy court, discharging the Company from Chapter 11 reorganization.

F- 9

FOUNTAIN PHARMACEUTICALS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

1. Nature of business, basis of presentation and summary of significant accounting policies (continued):

Liquidity and management's plans regarding operations:

In recognition of its limited capital resources, the Company's current business strategy is to continue to pursue arrangements with third parties whereby the Company can expand its markets and the costs of marketing and distribution of its products are not borne by the Company. Management intends to focus in the near term primarily upon increasing sales of existing non-regulated products consisting of sunscreen and moisturizing products through its licensing arrangements.

Currently, the Company principally licenses and supplies moisturizers and sunscreen products through its newly expanded licensing arrangements with pharmaceutical companies and expects to continue to do so in 1997. The Company has three principal licensing arrangements with two major European licensees, which cover markets in Norway, Denmark, Belgium, Holland, Luxembourg, Switzerland, Germany and Eastern Europe. While securing additional license arrangements may not result in significant revenues in the near term, management believes that its current efforts to secure an arrangement with a major pharmaceutical company with broad geographic markets offers the potential for sales growth. However, there can be no assurances to that effect.

Management anticipates that operating expenses are likely to increase modestly during the year ending September 30, 1997 to reflect the costs of additional personnel, as well as the addition of laboratory

facilities. Management believes, however, that the Company will realize revenues during Fiscal 1997 sufficient to satisfy these expenses, as well as other anticipated obligations under the Plan.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined generally on a first-in, first-out method.

F- 10

FOUNTAIN PHARMACEUTICALS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

1. Nature of business, basis of presentation and summary of significant accounting policies (continued):

Furniture and equipment:

Furniture and equipment are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Patent costs:

Patent costs are deferred pending the outcome of patent applications including the appeals process. Successful patent costs are amortized over the legal life of the patent. Unsuccessful or abandoned patent costs are charged to expense when determined to be worthless.

Advertising costs:

The costs associated with producing and communicating advertising are expensed in the period incurred. Advertising costs were \$44,000 and \$27,000 during 1996 and 1995, respectively.

Research and development:

Expenses for the design and development of the Company's products were \$95,466 and \$37,160, during 1996 and 1995, respectively.

Cash and cash equivalents:

For purposes of the statements of cash flows, cash and cash equivalents are defined as all highly liquid unrestricted investments purchased with an original maturity of three months or less.

Use of estimates:

Preparation of these financial statements in conformity with generally accepted accounting principles requires the use of estimates by management, principally in the area of inventory obsolescence. Management does not believe that any change in this estimate within the ensuing year will have a material effect on the financial statements.

F- 11

FOUNTAIN PHARMACEUTICALS, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

1. Nature of business, basis of presentation and summary of significant accounting policies (continued):

Net income per share:

Net income per share was computed based on the weighted average number of shares outstanding during the periods presented.

Fully diluted earnings per share is considered to be the same as primary earnings per share since the effect of certain potentially dilutive securities is immaterial.

2. Major customer information and concentrations of credit risk:

During the years ended September 30, 1996 and 1995 the Company derived revenues from customers which individually exceeded 10 percent of total revenues. They are approximately as follows:

	1996	1995
	-----	-----
Customer 1 (European)	\$ 857,000	\$ 659,000
Customer 2 (European)	\$ 352,000	\$ 200,000

Total export sales were approximately as follows:

	1996	1995
	-----	-----
Europe	\$1,258,000	\$ 912,000
Asia	33,000	95,000
	-----	-----
	\$1,291,000	\$1,007,000
	=====	=====

F- 12

FOUNTAIN PHARMACEUTICALS, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

2. Major customer information and concentrations of credit risk (continued):

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company sells its products principally to companies in the medical field located primarily in the United States, Europe, and Asia. Management assesses the financial stability of each of its major customers prior to contract negotiations and establishes credit limits for smaller customers to limit its risk. The Company does not require collateral or other security to support customer receivables. Because the Company sells a significant portion of its products and maintains individually significant receivables balances with major customers, if the financial condition and operations of these customers deteriorate below critical levels, the Company's operating results could be adversely affected.

3. Inventories:

Inventories consist of the following:

1996

Raw materials	\$	104,678
Finished goods		64,831
Less allowance for obsolescence	(	64,643)
	\$	104,866

Inventories were written down \$69,000 and \$0 in 1996 and 1995, respectively.

FOUNTAIN PHARMACEUTICALS, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

4. Prepetition liabilities:

Liabilities not subject to compromise at September 30, 1996 consists of a secured claim due to the former landlord. In November 1993, a judgment in the amount of \$100,567 was entered against the Company. Pursuant to the Bankruptcy order, the claim, including interest at 9.45 percent, is payable in monthly installments over 33 months from the effective date of the plan.

Liabilities subject to compromise consist of:

	1996
	-----
Class 2, priority wage and employee benefits (b)	\$ --
Class 5, secured tax claims (b)	--
Class 6, general unsecured (a)	177,281
Class 7, unsecured claims less than \$100 (b)	--
	-----
	177,281
Less current portion	(84,983)
	-----
	\$ 92,298
	=====

(a) These claims will be paid at 50 percent of the allowed amount, without interest. As a result of confirmation of the plan the Company recognized additional debt forgiveness income in 1996 of approximately \$335,000.

(b) During the petition period, certain compromises with regard to prepetition liabilities were reached. As such, during 1995 the Company recognized forgiveness of debt aggregating approximately \$245,000, which represented the difference between the previously recorded amounts and the amounts allowed by the Court.

Annual maturities of prepetition liabilities are as follows:

Year Ending September 30,	
-----	
1997	\$ 111,791
1998	124,351
	-----
	\$ 236,142
	=====

## FOUNTAIN PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995<TABLE>  
<CAPTION>

## 5. Stockholders' equity:

## Common stock warrants:

Common stock warrants issued, redeemed and outstanding during the years ended September 30, 1996 and 1995 are as follows:

	Class				Note Warrants	Management Warrants	Other
	A	B	C	D			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Common stock warrants outstanding at October 1, 1994 consist of the following:							
Issued in connection with investor notes in an offering exempt from registration through March 1990, exercise price of \$.75 expired August 1994 through March 1995.					316,912		
Issued in connection with a May 1990 initial public offering:							
Class A exercise price \$1, expired May 1995	4,027,056						
Class B, exercise price \$2, expired May 1995		6,315,195					
Issued to officers and directors, exercise prices ranging from \$.75 to \$1.00, expiring in 1995						56,000	
Issued to certain employees and consultants, exercise prices ranging from \$.75 to \$.81, expiring in 1995.						2,500	200,000
Subtotal	4,027,056	6,315,195	-	-	316,912	58,500	200,000

&lt;/TABLE&gt;

## FOUNTAIN PHARMACEUTICALS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995<TABLE>  
<CAPTION>

## 5. Stockholders' equity (continued):

## Common stock warrants (continued):

	Class				Note Warrants	Management Warrants	Other
	A	B	C	D			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance forward	4,027,056	6,315,195	-	-	316,912	58,500	200,000
Issued, January 1991, exercise price of \$.82, expiring 1996						1,300,000	
Issued in connection with November 1991 private offering, expiring October 1994:							
Class C, exercise price of \$1.00			5,450,000				
Class D, exercise price of \$2.00				5,450,000			
Issued to certain officers, directors and stockholders/consultants, exercise price ranging from \$.78 to \$3.62, expiring 1995 through 1999						2,800,000	
Issued to certain employees, exercise price, \$.78 vest over 3 years, expiring 1998 through 1999.						617,000	
Warrants outstanding, October 1, 1994	4,027,056	6,315,195	5,450,000	5,450,000	316,912	4,775,167	200,000
Less warrants expired in 1995	(4,027,056)	(6,315,195)	(5,450,000)	(5,450,000)	(316,912)	(208,500)	(200,000)
Warrants outstanding September 30, 1995	-	-	-	-	-	4,566,667	-
Less warrants expired in 1996						(1,300,000)	
Less warrants cancelled in 1996						(1,700,000)	
Issued to certain directors, exercise price of \$.04 vest over 3 years, expiring 2001.						1,300,000	
Issued to certain employees, exercise price of \$.04 vest over 3 years, expiring 2001.						1,750,000	
Warrants outstanding September 30, 1996	-	-	-	-	-	4,616,667	-

&lt;/TABLE&gt;

FOUNTAIN PHARMACEUTICALS, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

5. Stockholders' equity (continued):

Common stock warrants (continued):

Common stock warrants which were issued to current or former officers, directors, shareholders and employees ("Management Warrants") which remain outstanding at September 30, 1996 consist of the following:

Issue Date -----	Exercise Price -----	Expiration Date -----	Number of Warrants -----
December 1991	\$ 2.50	December 1996	1,000,000
March 1992	\$ 1.12	March 1997	200,000
March 1993	\$ .78	March 1998	366,667
December 1995	\$ .04	December 2000	3,050,000
			-----
			4,616,667
			=====

During December 1995, the Company issued 3,050,000 warrants to certain of its existing officers, directors and employees which vest over a three year period commencing in July 1996. These warrants are exercisable at \$.04 per share. All of these warrants, once vested, would not be exercisable since the Company's current capital structure (50,000,000 authorized shares) would not be sufficient to permit the issuance of such number of shares. This would conceivably provide the holders of such warrants with a cause of action against the Company for breach of its contractual obligations under the warrants. Management does not believe this is likely to occur since adjustment of the Company's capital structure would likely occur prior to any exercise of such warrants.



5. Stockholders' equity (continued):

Stock option and rights plan:

The Company has adopted a stock option and rights plan (the "Plan") covering 500,000 shares of the Company's common stock, pursuant to which officers, directors, key employees and consultants of the Company are eligible to receive qualified incentive, as well as non-qualified stock options and stock appreciation's rights ("SAR's"). Incentive stock options granted under the Plan are exercisable up to 10 years from the date of grant at an exercise price not less than the fair market value of the common stock on the date of the grant.

Notwithstanding, the term of an incentive stock option granted under the Plan to a shareholder owning more than 10 percent of the voting rights may not exceed five years, and the exercise price of an incentive stock option granted to such shareholder may not be less than 110 percent of the fair market value of the common stock on the date of the grant. Certain stock options and SARs, which give holders participation in the appreciation of the Company common stock, may be granted on terms determined by the Board of Directors or a committee designated by the Board.

At September 30, 1996, no SARs had been granted.

6. Employee benefit plan:

During 1993, the Company implemented a 401(k) profit sharing plan covering substantially all employees. The plan does not provide for employer contributions.

7. Income taxes:

Deferred tax assets consist of the following:

	1996
	-----
Net operating loss carryover	\$ 305,000
Tax credit carryforwards	105,000
Start-up costs deferred	56,000
Obsolete inventory allowance	24,000
Other	30,000
Valuation allowance	( 520,000)
	-----
	\$ -
	=====

7. Income taxes (continued):

Income tax (expense) benefit consists of the following:

	1996	1995
	-----	-----
Current:		
Federal	\$ -	\$ -
	-----	-----
Deferred:		
Deferred	( 387,000)	( 333,000)
Benefit of net operating loss carryover	( 168,000)	150,000
Loss of net operating loss and tax credit carryovers resulting from change in ownership (a)	( 4,277,000)	-
Decrease in valuation allowance	4,832,000	183,000
	-----	-----
	\$ -	\$ -
	-----	-----
	\$ -	\$ -

Income tax expense associated with the extraordinary item, forgiveness of debt, before and after the benefit of net operating loss carryover was \$125,000 and \$0, respectively in 1996 and \$85,000 and \$0, respectively in 1995.

The expected income tax benefit (expense) at the statutory tax rate differed from income taxes in the accompanying statements of operations as follows:

	Percentage of income before income taxes	
	1996	1995
	-----	-----
Statutory tax rate	34%	34%
Change in deferred tax asset valuation allowance	( 34%)	( 34%)
	-----	-----
Effective tax rate in accompanying statement of operations	0%	0%
	=====	=====

FOUNTAIN PHARMACEUTICALS, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

7. Income taxes (continued):

- (a) Under Section 382 and 383 of the Internal Revenue Code of 1986, if an ownership change occurs with respect to a "loss corporation", as defined, there are annual limitations on the amount of net operating loss and research and development tax credit carryovers. The Reorganization, other issuance's of common stock in 1995, and the issuance of common stock warrants in 1996 and 1995, created an ownership change in the Company's equity securities in excess of fifty percent; therefore, the availability of the pre-change net operating loss carryover (\$12,700,000) and research and development credit (\$250,000) will be substantially limited in the future and as such the Company has accounted for the loss of such carryover in 1996. The post-change net operating loss carryover of \$515,000 will expire in 2011.

8. Facilities rental:

The Company leases its office and warehouse facilities under a cancelable month-to-month operating lease. Rent expense under all operating leases were approximately \$52,000 and \$26,000 during the years ended September 30, 1996 and 1995, respectively. In March 1996, the Company entered into a two-year, non-cancelable rental agreement for the lease of 6,000 square feet of office, laboratory and warehouse space at \$4,500 per month. The agreement provides for an option for one additional year.

Obligations under the non-cancellable operating lease are as follows:

Year ending September 30, -----	
1997	\$ 57,780
1998	28,890
	-----
	\$ 86,670
	=====

9. Fair value of financial instruments:

All financial instruments are held or issued for purposes other than trading. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value because of the short maturity of those investments. The carrying value of liabilities not subject to compromise approximate fair value based on their stated rate of interest. The carrying value of liabilities subject to compromise were discounted therefore the recorded amounts approximate fair value.

10. Subsequent event:

On October 17, 1996 the Company arranged a bank line of credit for \$100,000 to be used to fund working capital needs. Future borrowings against the line of credit will bear interest at Prime plus .50% and will be secured by the Company's assets and guaranteed by a related party. The Loan Agreement contains certain provisions and covenants which, among other things, limit future indebtedness and require the Company to maintain specified levels of net worth and cash flow.

EXHIBIT INDEX

Exhibit No. -----	Description -----	Page ----
10.3	Loan Agreement by and between the Registrant and First Union National Bank of Florida dated October 17, 1996	
27	Financial Data Schedule (Electronic filing only)	



FIRST UNION  
NATIONAL BANK OF FLORIDA  
CLOSING STATEMENT

BORROWER: Fountain Pharmaceuticals, Inc.  
ADDRESS: 7279 Bryan Dairy Road  
Largo, Florida 34647  
CLOSING DATE: October 17, 1996

---

Loan Amount: :		\$100,000.00
Facility Fee:	\$1,000.00	
UCC- Filing	\$33.00	
Pre-Search:	\$10.00	
Post-Search	\$10.00	
Total Closing Costs:	\$1,053.00	
"Plus Doc Stamps"	350.00	
	-----	
	\$1,403.00	("Initialed")

I hereby approve the above statement as being a true and accurate statement of transactions on my account,

Fountain Pharmaceuticals, Inc.

By: /s/John C. Walsh

-----  
John C. Walsh, President

The foregoing is a correct amount of the funds received by us in connection with this transaction.

FIRST UNION NATIONAL BANK, of Florida

By: /s/Ruth Kamide

-----  
Ruth Kamide, Vice President

FIRST UNION

PROMISSORY NOTE

\$100,000.00

October 17 1996

Fountain Pharmaceuticals, Inc.  
7279 Bryan Dairy Road  
Largo, Florida 34647  
[Individually and collectively "Borrower"]

First Union National Bank of Florida  
214 North Hogan Street - FLO070  
Jacksonville, Florida 32202  
(Hereinafter referred to as the "Bank")

Borrower promises to pay to the order of Bank, in lawful money of the United States of America, at its office Indicated above or wherever else Bank may specify, the sum of One Hundred Thousand and No/100 Dollars (\$100,000.00) or such sum as may be advanced from time to time with interest on the unpaid principal balance at the rate and on the terms provided in this Promissory Note (including all renewals, extensions or modifications hereof, this "Note").

SECURITY. Borrower has granted Bank a security interest in the collateral described in the Loan Documents, Including, but not limited to, personal property collateral described in that certain Security Agreement dated October 17, 1996.

INTEREST RATE. Interest shall accrue on the unpaid principal balance of this Note from the date hereof at the rate of Bank's Prime Rate plus .50% (50 basis points) as that rate may change from time to time with changes to occur on the date Bank's Prime Rate changes ("Interest Rate"). Bank's Prime Rate shall be that rate announced by Bank from time to time as its Prime Rate and is one of several interest rate bases used by Bank. Bank lends at rates both above and below Bank's Prime Rate, and Borrower acknowledges that Bank's Prime Rate Is not represented or intended to be the lowest or most favorable rate of interest offered by Bank.

DEFAULT RATE. In addition to all other rights contained in this Note, if a default In the payment of the Obligations occurs, all outstanding Obligations shall bear Interest at the Interest Rate plus 3% ("Default Rate"). The Default Rate shall else apply from acceleration until the Obligations or any judgment thereon is paid in full.

INTEREST COMPUTATION. (Actual/360}. Interest shall be computed on the basis of a 360-day year for the actual number of days in the interest period ("Actual/360 Computation"). The Actual/360 Computation determines the annual effective interest yield by taking the stated (nominal) interest rate for a year's period

and then dividing said rate by 360 to determine the daily periodic rate to be applied for each day in the interest period. Application of the Actual/360 Computation produces an annualized effective interest rate exceeding that of the nominal rate.

REPAYMENT TERMS. This Note shall be due and payable in consecutive monthly payments of accrued interest only commencing on November 17, 1996, and on the same day of each month thereafter until fully paid. In any event, this Note shall be due and payable in full, including all principal and accrued interest, on demand.

APPLICATION OF PAYMENTS. Monies received by Bank from any source for application toward payment of the Obligations shall be applied to accrued interest and then to principal. Upon the occurrence of a default in the payment of the Obligations or a Default (as defined in the other Loan Documents) under any other Loan Document, monies may be applied to the Obligations in any manner or order deemed appropriate by Bank.

if any payment received by Bank under this Note or other Loan Documents is rescinded, avoided or for any reason returned by Bank because of any adverse claim or threatened action, the returned payment shall remain payable as an obligation of all persons liable under this Note or other Loan Documents as though such payment had not been made.

LOAN DOCUMENTS AND OBLIGATIONS. The term "Loan Documents" used in this Note and other Loan Documents refers to all documents executed in connection with the loan evidenced by this Note and may include, without limitation, a commitment letter that survives closing, a loan agreement, this Note, guaranty agreements, security agreements, security instruments, financing statements, mortgage instruments, letters of credit and any renewals or modifications, but however, does not include swap agreements as defined in 11 U.S.C. Section 101 whenever executed.

The term "Obligations" used in this Note refers to any and all indebtedness and other obligations under this Note, all other obligations as defined in the respective Loan Documents, and all obligations under any swap agreements as defined in 11 U.S.C. Section 101 between Borrower and Bank whenever executed.

LATE CHARGE. If any payments are not timely made, Borrower shall also pay to Bank a late charge equal to 5% of each payment past due for 10 or more days.

Acceptance by Bank of any late payment without an accompanying late charge shall not be deemed a waiver of Bank's right to collect such late charge or to collect

a late charge for any subsequent late payment received,

If this Note is secured by owner-occupied residential real property located outside the state in which the office of Bank first shown above is located, the late charge laws of the state where the real property is located shall apply to this Note, or if permitted under the law of that state, 5% of each payment past due for 10 or more days.

ATTORNEYS' FEES AND OTHER COLLECTION COSTS. Borrower shall pay all of Bank's reasonable expenses incurred to enforce or collect any of the Obligations, including, without limitation, reasonable arbitration, paralegals', attorneys' and experts' fees and expenses. whether incurred without the commencement of a suit, in any trial, arbitration, or administrative proceeding, or in any appellate or bankruptcy proceeding.

USURY. Regardless of any other provision of this Note or other Loan Documents, if for any reason the effective interest should exceed the maximum lawful interest, the effective interest shall be deemed reduced to, and shall be, such maximum lawful interest, and (i) the amount which would be excessive Interest shall be deemed' applied to the reduction of the principal balance of this Note and not to the payment of interest, and (ii) if the loan evidenced by this Note has been or is thereby paid in full, the excess shall be returned to the party paying same, such application to the principal balance of this Note or the refunding of excess to be a complete settlement and acquittance thereof.

BORROWER'S ACCOUNTS. Except as prohibited by law, Borrower grants Bank a security interest in all of Borrower's accounts with Bank and any of its affiliates.

DEMAND NOTE. This is a demand Note and all Obligations hereunder shall become immediately due and payable upon demand. In addition, the Obligations shall

automatically become immediately due and payable If Borrower or any guarantor or endorser of this Note commences or has commenced against it a bankruptcy or insolvency proceeding.

REMEDIES. Upon the occurrence of a default in the payment of the Obligations or a Default (as defined In the other Loan Documents) under any other Loan Document, Bank may at any time thereafter, take the following actions: Bank Lien and Set-off, Exercise its right of set-off or to foreclose Its security interest



or lien against any account of any nature or maturity of Borrower with Bank without notice. Cumulative, Exercise any rights end remedies as provided under the Note and other Loan Documents, or as provided by law or equity.

ANNUAL FINANCIAL STATEMENTS. Borrower shall deliver to Bank, within 90 days after the close of each fiscal year, audited financial statements reflecting its operations during such fiscal year, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, with supporting schedules; all on a consolidated and consolidating basis and in reasonable detail, prepared in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. All such statements shall be examined by an Independent certified public accountant acceptable to Bank. The opinion of such independent certified public accountant shall not be acceptable to Bank if qualified due to any limitations in scope imposed by Borrower or its Subsidiaries, if any. Any other qualification of the opinion by the accountant shall render the acceptability of the financial statements subject to Bank's approval.

PERIODIC FINANCIAL STATEMENTS. Borrower shall deliver to Bank quarterly AIR Aging & Inventory Reports, as soon as available and in any event within 30 days after the close of each such period; all in reasonable detail. Such statements shall be certified as to their correctness by a principal financial officer of Borrower and in each case, if audited statements are required, subject to audit and year-end adjustments.

LINE OF CREDIT ADVANCES, Borrower may borrow, repay and reborrow, end Bank may advance and readvance under this Note respectively from time to time, so long as the total indebtedness outstanding at any one time does not exceed the principal amount stated on the face of this Note. Bank's obligation to advance or readvance under this Note shall terminate if a demand for payment is made under this Note or if a Default (as defined in the other Loan Documents) under any Loan Document occurs or in any event, on the first anniversary hereof unless renewed or extended by Bank in writing upon such terms then satisfactory to Bank,

WAIVERS AND AMENDMENTS. No waivers, amendments or modifications of this Note and other Loan Documents shall be valid unless in writing and signed by an officer of Bank. No waiver by Bank of any Default (as defined in the other Loan Documents) shall operate as a waiver of any other Default or the same Default on a future occasion. Neither the failure nor any delay on the part of Bank in exercising any right, power, or remedy under this Note end other Loan Documents shall operate as a waiver thereof, not, shall a single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

Each Borrower or any person liable under this Note waives presentment, protest, notice of dishonor, notice of Intention to accelerate maturity, notice of acceleration of maturity, notice of sale and all other notices of any kind. Further, each agrees that Bank may extend, modify or renew this Note or make a novation of the loan evidenced by this Note for any period and grant any releases, compromises or indulgences with respect to any collateral securing

this Note, or with respect to any Borrower or any person liable under this Note or other Loan Documents, all without notice to or consent of any Borrower or any person who may be liable under this Note or other Loan Documents end without affecting the liability of Borrower or any person who may be liable under this Note or other Loan Documents.

Page 3

MISCELLANEOUS PROVISIONS. Assignment. This Note and other Loan Documents shall inure to the benefit of and be binding upon the parties and their respective heirs, legal representatives, successors and assigns. Bank's interests in and rights under this Note and other Loan Documents are freely assignable, in whole or in part, by Bank. Borrower shall not assign its rights and interest hereunder without the prior written consent of Bank, and any attempt by Borrower to assign without Bank's prior written consent is null and void. Any assignment shall not release Borrower from the Obligations. Applicable Law; Conflict Between Documents. This Note and other Loan Documents shall be governed by and construed under the laws of the state where Bank first shown above is located without regard to that state's conflict of laws principles. If the terms of this Note should conflict with the terms of the loan agreement or any commitment letter that survives closing, the terms of this Note shall control, Jurisdiction. Borrower irrevocably agrees to non-exclusive personal jurisdiction in the state in which the office of Bank first shown above is located. Severability. If any provision of this Note or of the other Loan Documents shall be prohibited or invalid under applicable law, such provision shall be ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note or other such document. Notices. Any notices to Borrower shall be sufficiently given, if in writing and mailed or delivered to the Borrower's address shown above or such other address as provided hereunder, and to Bank, if in writing and mailed or delivered to Bank's office address shown above or such other address as Bank may specify in writing from time to time. In the event that Borrower changes Borrower's address at any time prior to the date the Obligations are paid in full, Borrower agrees to promptly give written notice of said change of address by registered or certified mail, return receipt requested, all charges prepaid. Plural; Captions. All references in the Loan Documents to Borrower, guarantor, person, document or other nouns of reference mean both the singular and plural form, as the case may be, and the term "person" shall mean any individual, person or entity. The captions contained in the Loan Documents are inserted for convenience only and shall not affect the meaning or interpretation of the Loan Documents, Binding Contract, Borrower by execution of and Bank by acceptance of this Note agree that each party is bound to all terms and provisions of this Note. Advances. Bank in its sole discretion may make other advances and readvances under this Note pursuant hereto. Posting of Payments. All payments received during normal banking hours after 2:00 p.m. local time at the office of

Bank first shown above shall be deemed received at the opening of the next banking day. Joint and Several Obligations. Each Borrower is jointly and severally obligated under this Note. Fees and Taxes. Borrower shall promptly pay all documentary, intangible recordation and/or similar taxes on this transaction whether assessed at closing or arising from time to time.

ARBITRATION. Upon demand of any party hereto, whether made before or after institution of any judicial proceeding, any dispute, claim or controversy arising out of, connected with or relating to this Note and other Loan Documents ("Disputes") between or among parties to this Note shall be resolved by binding arbitration as provided herein. Institution of a judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include, without limitation, tort claims, counterclaims, disputes as to whether a matter is subject to arbitration, claims brought as class actions, claims arising from Loan Documents executed-in the future, or claims arising out of or connected with the transaction reflected by this Note.

Arbitration shall be conducted under and governed by the Commercial Financial Disputes Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association (the "AAA") and Title 9 of the U.S. Code. All arbitration hearings shall be conducted in the city in which the office of Bank first stated above is located, The expedited procedures set forth in Rule 51 et seq. of the Arbitration Rules shall be applicable to claims of less than \$1,000,000.00. All applicable statutes of limitation shall apply to any Dispute. A judgment upon the award may be entered in any court having jurisdiction. The panel from which all arbitrators are selected shall be Comprised of licensed attorneys. The single arbitrator selected for expedited procedure shall be a retired judge from the highest court of general Jurisdiction, state or federal, of the state where

Page 4

the hearing will be conducted or if such person is not available to serve, the single arbitrator may be a licensed attorney. Notwithstanding the foregoing, this arbitration provision does not apply to disputes under or related to swap agreements.

PRESERVATION AND LIMITATION OF REMEDIES, Notwithstanding the preceding binding arbitration provisions, Bank and Borrower agree to preserve, without diminution, certain remedies that any party hereto may employ or exercise freely, independently or in connection with an arbitration proceeding or after an arbitration action is brought. Bank and Borrower shall have the right to proceed in any court of proper jurisdiction or by self-help to exercise or prosecute the following remedies, as applicable: (i) all rights to foreclose against any real or personal property or other security by exercising a power of sale granted under Loan Documents or under applicable law or by judicial foreclosure and sale, including a proceeding to confirm the sale; (ii) all rights of self-help including peaceful occupation of real property and collection of rents, set-off, and peaceful possession of personal property; (iii) obtaining provisional or

ancillary remedies including injunctive relief, sequestration, garnishment, attachment, appointment of receiver and filing an involuntary bankruptcy proceeding; and (iv) when applicable, a judgment 'by confession of judgment. Preservation of these remedies does not limit the power of an arbitrator to grant similar remedies that may be requested by a party in a Dispute.

Borrower and Bank agree that they shall not have a remedy of punitive or exemplary damages against the other in any Dispute and hereby waive any right or claim to punitive or exemplary damages they have now or which may arise in the future in connection with any Dispute whether the Dispute is resolved by arbitration or judicially.

IN WITNESS WHEREOF, Borrower, on the day and year first above written, has caused this Note to be executed under seal.

Fountain Pharmaceuticals, Inc.  
Taxpayer Identification Number: 62-1386759

CORPORATE  
SEAL

By: /s/ John C. Welsh  
-----  
John C. Welsh, President

FIRST UNION

SECURITY AGREEMENT

Fountain Pharmaceuticals, Inc.  
7279 Bryan Dairy Road  
Largo, Florida 34647  
(Individually and collectively "Debtor")

October 17, 1996

First Union National Bank of Florida  
214 North Hogan Street - FL0070  
Jacksonville, Florida 32202  
(Hereinafter referred to as the "Bank")

For value received end to secure payment and performance of the Promissory Note executed by the Debtor dated October 17, 1996, in the original principal amount of \$100,000.00, payable to Bank, and any extensions, renewals, modifications or novations thereof (the "Note"), this Security Agreement and the other Loan Documents, and any other obligations of Debtor to Bank however created, arising or evidenced, Whether direct or indirect, absolute or contingent, now existing or hereafter arising or acquired, including swap agreements (as defined in 11 U.S.C. Section 101), future advances, and all costs and expenses incurred by Bank to obtain, preserve, perfect and enforce the security interest granted herein and to maintain, preserve and collect the property subject to the security interest (collectively, "Obligations"), Debtor hereby grants to Bank a continuing security interest in and lien upon the following described property, now owned or hereafter acquired, any additions, accessions, or substitutions thereof and thereto, and all proceeds and products thereof, including cash or non-cash dividends (collectively, "Collateral"):

All accounts, contract rights, leases, and any other rights of Debtor to payment for goods sold or leased or for services rendered; furniture; furnishings; equipment; machinery; accessories; moveable trade fixtures; goods held for sale or being processed for sale in Debtor's business, including all raw materials, supplies, and other materials used or consumed in Debtor's business, goods in process, finished goods, and all other items customarily classified as inventory; building improvement and construction materials, supplies and equipment; chattel paper; instruments; documents; all funds on deposit with Bank and its affiliates; and all general intangibles; as well as all parts, replacements, substitutions, profits, products and cash and non-cash proceeds of the foregoing (including insurance and condemnation proceeds payable by reason of condemnation of or loss or damage thereto) in any form and wherever located.

All inventory, including all raw materials and work in process to be processed into such inventory, and all accessions, attachments and other additions to, substitutes for, replacements for, improvements to and returns of such inventory, all accounts arising from the disposition of inventory.

Debtor hereby represents and agrees that:

OWNERSHIP. Debtor owns the Collateral or Debtor will purchase and acquire rights in the Collateral within ten days of the date advances are made under the Note. If Collateral is being acquired with the proceeds of an advance under the Note, Debtor authorizes Bank to disburse proceeds directly to the seller of the Collateral, The Collateral is free and clear of all liens, security interests, and claims except those previously reported in writing to Bank, and Debtor will keep the Collateral free and clear from all liens, security interests and claims, other than those granted to Bank.

NAME AND OFFICES, There has been no change in the name of Debtor, or the name under which Debtor conducts business, within the 5 years preceding the date of

execution of this Security Agreement and Debtor has not moved its executive offices or residence within the 5 years preceding the date of execution of this Security Agreement except as previously reported in writing to Bank. The taxpayer identification number of Debtor as provided herein is correct,

TITLE/TAXES, Debtor has good and marketable title to Collateral and will warrant and defend same against all claims. Debtor will not transfer, sell, or lease Collateral (except in the ordinary course of business). Debtor agrees to pay promptly all taxes and assessments upon or for the use of Collateral and on this Security Agreement. At its option, Bank may discharge taxes, liens, security interests or other encumbrances at any time levied or placed on Collateral. Debtor agrees to reimburse Bank, on demand, for any such payment made by Bank. Any amounts so paid shall be added to the Obligations.

WAIVERS, Debtor waives presentment, demand, protest, notice of dishonor, notice of default, demand for payment, notice of intention to accelerate, and notice of acceleration of maturity. Debtor further agrees not to assert against Bank as a defense (legal or equitable), as a set-off, as a counterclaim, or otherwise, any claims Debtor may have against any seller or lessor that provided personal property or services relating to any part of the Collateral. Debtor Waives all exemptions and homestead rights with regard to the Collateral. Debtor waives any and all rights to notice or to hearing prior to Bank's taking immediate possession or control of any Collateral, and to any bond or security which might be required by applicable law prior to the exercise of any of Bank's remedies against any Collateral.

EXTENSIONS, RELEASES, Debtor agrees that Bank may extend, renew or modify any of

the Obligations and grant any releases, compromises or indulgences with respect to any security for the Obligations, or with respect to any party liable for the Obligations, all without notice to or consent of Debtor and without affecting the liability of Debtor or the enforceability of this Security Agreement.

NOTIFICATIONS OF CHANGE. Debtor will notify Bank in writing at least 30 days prior to any change in: (i) Debtor's chief place of business and/or residence (ii) Debtor's name or Identity; or (iii) Debtor's corporate structure. Debtor will keep Collateral at the location(s) previously provided to Bank until such time as Bank provides written advance consent to a change of location. Debtor will bear the cost of preparing and filing any documents necessary to protect Bank's liens.

COLLATERAL CONDITION AND LAWFUL USE. Debtor represents that Collateral is in good repair and condition and that Debtor shall use reasonable care to prevent Collateral from being damaged or depreciating. Debtor shall immediately notify Bank of any material loss or damage to Collateral. Debtor shall not permit any item of equipment to become a fixture to real estate or an accession to other personal property. Debtor represents it is in compliance in all respects with all federal, state and local laws, rules and regulations applicable to its properties, Collateral, operations, business, end finances, including, without limitation, any federal or State laws relating to liquor (including 18 U.S.C. Section 3617, et seq.) or narcotics (including 21 U.S.C. Section 801, et seq.) and all applicable federal, state and local laws, and regulations intended to protect the environment,

RISK OF LOSS AND INSURANCE. Debtor shall bear all risk of loss with respect to the Collateral. The injury to or loss of Collateral, either partial or total, shall not release Debtor from payment or other performance hereof. Debtor agrees to obtain and keep in force casualty and hazard Insurance on Collateral naming Bank as loss payee. Such insurance is to be in form and amounts satisfactory to Bank. All such policies shall provide to Bank a minimum of 30 days written notice of cancellation. Debtor shall furnish to Bank such policies, or other evidence of such policies satisfactory to Bank. Bank is authorized, but not obligated, to purchase any or all insurance or "Single Interest insurance" protecting such interest as Bank deems appropriate against such risks and for such coverage and for such amounts, including either the loan amount or value of

the Collateral at its discretion, all at Debtor's expense. In such event, Debtor agrees to reimburse Bank for the cost of such insurance and Bank may add such cost to the Obligations, Debtor shall bear the risk of loss to the extent of any deficiency in the effective insurance coverage with respect to loss or damage to any of the Collateral. Debtor hereby assigns to Bank the proceeds of all such insurance and directs any insurer to make payments directly to Rank. Debtor



hereby appoints Bank its attorney-in-fact, which appointment shall be irrevocable and coupled with an interest for so long as the Obligations are unpaid, to file proof of loss and/or any other forms required to collect from any insurer any amount due from any damage or destruction of Collateral, to agree to and bind Debtor as to the amount of said recovery, to designate payee(s) of such recovery, to grant releases to insurer, to grant subrogation rights to any insurer, and to endorse any settlement check or draft. Debtor agrees not to exercise any of the foregoing powers granted to Bank without the Bank's prior written consent.

ADDITIONAL COLLATERAL. If at any time Collateral is unsatisfactory to Bank, then on demand of Bank, Debtor shall immediately furnish such additional Collateral satisfactory to Bank to be held by Bank as if originally pledged hereunder and shall execute such additional Security agreements and financing statements as requested by Bank.

FINANCING STATEMENTS. No Financing Statement (other than any filed by Bank or disclosed above) covering any of Collateral or proceeds thereof is on file in any public filing office, This Security Agreement, or a copy thereof, or any Financing Statement executed hereunder may be recorded. On request of Bank, Debtor will execute one or more Financing Statements in form satisfactory to Bank and will pay all costs and expenses of filing the same or of filing this Security Agreement in all public filing offices, where filing is deemed by Bank to be desirable. Bank is authorized to file Financing Statements relating to Collateral without Debtor's signature where authorized by law. Debtor appoints Bank as its attorney-in-fact to execute such documents necessary to accomplish perfection of Bank's security interest. The appointment is coupled with an interest and shall be irrevocable as long as any Obligations remain outstanding. Debtor further agrees to take such other actions as might be requested for the perfection, Continuation and assignment, in whole or in part, of the security interests granted herein. If certificates are issued or outstanding as to any of the Collateral, Debtor will cause the security interests of Bank to be properly protected, including perfection of notation thereon,

LANDLORD/MORTGAGEE WAIVERS. Debtor shall cause each mortgagee of real property owned by Debtor and each landlord of real property leased by Debtor to execute and deliver Instruments satisfactory in form and substance to Bank by which such mortgagee or landlord waives its rights, if any, in the Collateral.

STOCK, DIVIDENDS. If, with respect to any security pledged hereunder, a stock dividend is declared, any stock split made or right to subscribe is Issued, all the certificates for the shares representing such stock dividend, stock split or right to subscribe will be immediately, delivered, duly endorsed, to the Bank as additional collateral, and any cash or non-cash dividend will be immediately delivered to Bank.

CONTRACTS, CHATTEL PAPER, ACCOUNTS, GENERAL INTANGIBLES, Debtor warrants that the Collateral consisting of contract rights, chattel paper, accounts, or general intangibles is (i) genuine and enforceable in accordance with its terms except as limited by law; (ii) not subject to any defense, set-off, claim or counterclaim of a material nature against Debtor except as to which Debtor has



notified Bank in writing; and (lit) not subject to any other circumstances that would impair the validity, enforceability or amount of such Collateral except as to which Debtor has notified Bank In writing. Debtor shall not amend, modify or supplement any lease, contract or agreement contained in the Collateral or waive any provision therein, without prior written consent of Bank.

Page 3

ACCOUNT INFORMATION. From time to time, at the Bank's request, Debtor shall provide Bank with schedules describing all accounts and contracts, including customers' addressee, credited or acquired by Debtor end at the Bank's request shall execute and deliver written assignments of contracts end other documents evidencing such accounts and contracts 'to Bank. Together with each schedule, Debtor shall, if requested by Bank, furnish Bank with copies of Debtor's sales journals, invoices, customer purchase orders or the equivalent,. and original shipping or delivery receipts for all goods sold, and Debtor warrants the genuineness thereof,

ACCOUNT AND CONTRACT DEBTORS, Bank shall have the right to notify the account and contract debtors obligated on any or all of the Collateral to make payment thereof directly to Bank and Bank may take control of all proceeds of any such Collateral, which rights Bank may exercise at any time. The cost of such collection and enforcement, including attorneys' fees and expenses, shall be borne solely by Debtor whether the same is incurred by Bank or Debtor. Upon demand of Bank, Debtor will, upon receipt of all checks, drafts, cash end other remittances in payment on Collateral, deposit the same in a special bank account maintained with Bank, over which Rank also has the power of withdrawal,

If a Default occurs, no discount, credit, or allowance shall be granted by Debtor to any account or contract debtor and no return of merchandise shall be accepted by Debtor without Bank's consent. Bank may, after Default, settle or adjust disputes and claims directly with account contract debtors for amounts and upon terms that Bank considers advisable, and in such cases, Bank will credit the Obligations with the net amounts received by Bank, after deducting all of the expenses incurred by Bank. Debtor agrees to indemnify and defend Bank and hold it harmless with respect to any claim or proceeding arising out of any matter related to collection of the Collateral.

GOVERNMENT CONTRACTS. If any accounts receivable or proceeds of inventory covered hereby arises from obligations due to Debtor from any governmental unit or organization, Debtor shall immediately notify Bank in writing end execute all documents end take all actions demanded by Bank to ensure recognition by such governmental unit or organization of the rights of Bank in the Collateral.

FARM PRODUCTS. Debtor agrees to deliver to Bank a written list identifying all points of delivery of, and identifying all potential buyers, commission

merchants, and selling agents to or through whom Debtor may sell farm products secured by this Security Agreement.

LIVESTOCK. If the Collateral includes livestock, Debtor grants to Bank a security interest in all increase, progeny and products thereof, all feed owned by Debtor, all Water privileges, all equipment used in feeding and handling said livestock, and all rights, title and interest in and to all contracts and leases covering lands for pasture and grazing purposes.

INVENTORY. So long as no Default has occurred, Debtor shall have the right in the regular course of business, to process and sell Debtor's inventory, unless Bank shall hereafter otherwise direct in writing. Upon demand of Bank, Debtor will, upon receipt of all checks, drafts, cash and other remittances, in payment of Collateral sold, deposit the same in a special bank account maintained with Bank, over which Bank also has the power of withdrawal. Debtor shall comply with all federal, state, and local laws, regulations, rulings, and orders applicable to Debtor or its assets or business, in all respects. Without limiting the generality of the previous sentence, Debtor shall comply with all requirements of the federal Fair Labor Standards Act in the conduct of its business and the production of Inventory. Debtor shall notify Bank immediately of any violation by Debtor of the Fair Labor Standards Act, and a failure of Debtor to so notify Bank shall constitute a continuing representation that all inventory then existing has been produced in compliance with the Fair Labor Standards Act.

Page 4

INSTRUMENTS, CHATTEL PAPER, Any Collateral that is instruments, chattel paper and negotiable documents will be properly assigned to, deposited with and held by Bank, unless Bank shall hereafter otherwise direct or consent in writing, Bank may, without notice, before or after maturity of the Obligations, exercise any or all rights of collection, conversion, or exchange and other similar rights, privileges and options pertaining to the Collateral, but shall have no duty to do so.

COLLATERAL DUTIES. Bank shall have no custodial or ministerial duties to perform with respect to Collateral pledged except as set forth herein; and by way of explanation and not by way of limitation, Bank shall incur no liability for any of the following: (i) loss or depreciation of the Collateral (unless caused by its willful misconduct), (ii) its failure to present any paper for payment or protest, to protest or give notice of nonpayment, or any other notice with respect to any paper or Collateral, or (iii) its failure to present or surrender for redemption, conversion or exchange any bond, stock, paper or other security whether in connection with any merger, consolidation, recapitalization, or

reorganization, arising out of the refunding of the original security, or for any other reason, or its failure to notify any party hereto that the Collateral should be so presented or surrendered.

TRANSFER OF COLLATERAL. The Bank may assign its rights in the Collateral or any part thereof, to the assignee, as well as any subsequent holder hereof, who shall thereupon become vested with all the powers and rights herein given to the Bank with respect to the property so transferred and delivered, and the Bank shall thereafter be forever relieved and fully discharged from any liability with respect to such property so transferred, but with respect to any property not so transferred the Bank shall retain all rights and powers hereby given,

SUBSTITUTE COLLATERAL. With prior written consent of Bank, other Collateral may be substituted for the original Collateral herein in which event all rights, duties, obligations, remedies and security interests provided for, created or granted shall apply fully to such substitute Collateral.

INSPECTION, BOOKS AND RECORDS. Debtor will at all times keep accurate and complete records covering each item of Collateral, including the proceeds therefrom. Bank, or any of its agents, shall have the right, at intervals to be determined by Bank and without hindrance or delay, to inspect, audit, and examine the Collateral and to make extracts from the books, records, journals, orders, receipts, correspondence and other data relating to the Collateral, Debtor's business or any other transaction between the parties hereto. Debtor will at its expense furnish Bank copies thereof upon request.

CROSS COLLATERALIZATION LIMITATION. As to any other existing or future consumer purpose loan by Bank to Debtor, within the meaning of the Federal Consumer Credit Protection Act, Bank expressly waives any security interest granted herein in Collateral that Debtor uses as a principal dwelling and household goods.

ATTORNEYS' FEES AND OTHER COSTS OF COLLECTION. Debtor shall pay all of Bank's reasonable expenses incurred in enforcing this Agreement and in preserving and liquidating the Collateral, including but not limited to, reasonable arbitration, paralegals', attorneys' and experts' fees and expenses, whether incurred without the commencement of a suit, in any trial, arbitration, or administrative proceeding, or in any appellate or bankruptcy proceeding.

DEFAULT. If any of the following occurs, a default ("Default") under this Security Agreement shall exist: (i) The failure of timely payment or performance of any of the obligations or a default under any Loan Document; (ii) Any breach of any representation or agreement contained or referred to in this Security Agreement or other Loan Document; (iii) Any loss, theft, substantial damage, or destruction of the Collateral not fully covered by insurance, or as to which

insurance proceeds are not remitted to Bank within 30 days of the loss; any sale (except the sale of Inventory in the ordinary course of business), lease, or encumbrance of any of the Collateral without prior written consent of Bank; or the making of any levy, seizure, or attachment on or of the Collateral which is not removed within 10 days; or (iv) the death of, appointment of guardian for, dissolution of, termination of existence of, loss of good standing status by, appointment of a receiver for, assignment for the benefit of creditors of, or commencement of any bankruptcy or insolvency proceeding by or against Debtor, its Subsidiaries or Affiliates, if any, or any general partner of or the holder(s) of the majority ownership interests of Debtor or any party to the Loan Documents.

REMEDIES ON DEFAULT (INCLUDING POWER OF SALE). If a Default occurs, all of the Obligations shall be immediately due and payable, without notice and Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code. Without limitation thereto, Bank shall have the following rights and remedies: (i) To take immediate possession of the Collateral, without notice or resort to legal process, and for such purpose, to enter upon any premises on which the Collateral or any part thereof may be situated and to remove the same therefrom, or, at its option, to render the Collateral unusable or dispose of said Collateral on Debtor's premises. (ii) To require Debtor to assemble the Collateral and make it available to Bank at a place to be designated by, Bank. (iii) To exercise its right of set-off or bank lien as to any monies of Debtor deposited in demand, checking, time, savings, certificate of deposit or other accounts of any nature maintained by Debtor with Bank or Affiliates of Bank, without advance notice, regardless of whether such accounts are general or special. (iv) To dispose of Collateral, as a unit or in parcels, separately or with any real property interests also securing the Obligations, in any county or place to be selected by Bank, at either private or public sale (at which public sale bank may be the purchaser) with or without having the Collateral physically present at said sale. (v) Any notice of sale, disposition or other action by Bank required by law and sent to Debtor at Debtor's address shown above, or at such other address of Debtor as may from time to time be shown on the records of Bank, at least 5 days prior to such action, shall constitute reasonable notice to Debtor. Notice shall be deemed given or sent when mailed postage prepaid to Debtor's address as provided herein. (vi) Bank shall be entitled to apply the proceeds of any sale or other disposition of the Collateral, and the payments received by Bank with respect to any of the Collateral, to the Obligations in such order and manner as Bank may determine. (vii) Collateral that is subject to rapid declines in value and is customarily sold in recognized markets may be disposed of by Bank in a recognized market for such collateral without providing notice of sale.

REMEDIES ARE CUMULATIVE. No failure on the part of Bank to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by Bank or any right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided by law, in equity, or in other Loan Documents.

MISCELLANEOUS. (i) Amendments and Waivers. No waivers, amendments or modifications of any provision of this Security Agreement shall be valid unless in writing and signed by an officer of Bank. No waiver by Bank of any Default shall operate as a waiver of any other Default or of the same Default on a future occasion. Neither the failure of, nor any delay by, Bank in exercising any right, power or privilege granted pursuant to this Security Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege. (ii) Assignment. All rights of Bank hereunder are freely assignable, in whole or in part, and shall inure to the benefit of and be enforceable by Bank, its successors, assigns and affiliates. Debtor shall not assign its rights and interest hereunder without the prior written consent of Bank, and any attempt by Debtor to assign without Bank's prior written consent is null and void. Any assignment shall not release Debtor from the Obligations. This Security Agreement shall be binding upon Debtor, and the heirs, personal representatives,

Page 6

successors, and assigns of Debtor. (iii) Applicable Law; Conflict Between Documents. This Security Agreement shall be governed by and construed under the law of the state in which the office of Bank as stated above is located without regard to that state's conflict of laws principles. If any terms of this Security Agreement conflict with the terms of any commitment letter or loan proposal, the terms of this Security Agreement shall control. (iv) Jurisdiction. Debtor irrevocably agrees to non-exclusive personal jurisdiction in the state in which the office of Bank as stated above is located. (v) Severability. If any provision of this Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement. (vi) Notices. Any notices to Debtor shall be sufficiently given, if in writing and mailed or delivered to the address of Debtor shown above or such other address as provided hereunder; and to Bank, if in writing and mailed or delivered to Bank's office address shown above or such other address as Bank may specify in writing from time to time. In the event that the Debtor changes Debtor's address at any time prior to the date this Note is paid in full, Debtor agrees to promptly give written notice of said change of address by registered or Certified mail, return receipt requested, all charges prepaid. (vii) Captions. The captions contained herein are inserted for convenience only and shall not affect the meaning or interpretation of this Security Agreement or, any provision hereof. The use of the plural shall also mean the singular, and vice versa. (viii) Loan Documents. The term "Loan Documents" refers to all documents executed in connection with the Obligations and may include, without limitation, commitment letters, loan agreements, guaranty agreements, other security agreements, letters of credit, instruments financing statements, mortgages, deeds of trust, deeds to secure debt, and any amendments or supplements (excluding swap agreements as defined in 11 U.S.C. Section 101). (ix) Joint and Several Liability. If more than One

person has signed this Security Agreement, such parties are jointly and severally obligated hereunder. (x) Binding Contract. Debtor by execution and Bank by acceptance of this Security Agreement, agree that each party is bound by all terms and provisions of this Security Agreement.

IN WITNESS WHEREOF, Debtor, on the day end year first written above, has caused this Agreement to be executed under seal.

Fountain Pharmaceuticals, Inc.  
Taxpayer Identification Number: 62-1386759

CORPORATE  
SEAL

By: /s/ John C. Welsh  
-----  
John C. Welsh, President

FIRST UNION

LOAN AGREEMENT

First Union National Bank of Florida  
214 North Hogan Street - FL0070  
Jacksonville, Florida 32202  
{Hereinafter referred to as the "Bank"}

Fountain Pharmaceuticals, Inc.  
7279 Bryan Dairy Road  
Largo, Florida 33777  
{Individually and collectively "Borrower"}

This Loan Agreement {"Agreement"} is entered into October 17, 1996, by and between Bank and Borrower, a Corporation organized under the laws of Florida.

Borrower has applied to Bank for s loan or loans {individually and collectively, the "Loan"} evidenced by one or more promissory notes (whether one or more, the "Note") as follows:

Line of Credit - In the principal amount of \$100,000.00 which is evidenced by the Promissory Note dated October 17, 1996 ("Line of Credit Note"), under which Borrower may borrow, repay, and reborrow, from time to time, so long as the total indebtedness outstanding at any one time does not exceed the principal amount. The Loan proceeds are to be used by Borrower solely for Support of A/R and Inventory. Bank's obligation to advance or readvance under the Line of Credit Note shall terminate if a default in the payment of the Obligations occurs or the Borrower is in Default (as defined in the Loan Documents) under any Loan Document, or in any event, on January 31, 1997 unless renewed or extended by Bank in writing upon such terms then satisfactory to Bank,

This Agreement applies to the Loan and all Loan Documents. The terms "Loan Documents" and "Obligations," as used in this Agreement, are defined in the Note. The term "Borrower" shall include its Subsidiaries and Affiliates. As used in this Agreement as to Borrower, "Subsidiary" shall mean any corporation of which more than 50% of the issued and outstanding voting stock is owned directly or indirectly by Borrower. As to Borrower, "Affiliate" shall have the meaning as defined in 11 U.S.C. Section 101, except that the term "debtor" therein shall be substituted by the term "Borrower" herein.

Relying upon the covenants, agreements, representations and warranties contained in this Agreement, Bank is willing to extend credit to Borrower upon the terms and subject to the conditions set forth herein, and Bank and Borrower agree as follows:

REPRESENTATIONS. Borrower represents that from the date of this Agreement and until final payment in full of the Obligations: Accurate Information. All information now and hereafter furnished to Bank is and will be true, correct and complete. Any such information relating to Borrower's financial condition will accurately reflect Borrower's financial condition as of the date(s) thereof, {including all contingent liabilities of every type), and Borrower further represents that its financial condition has not changed materially or adversely since the date(s) of such documents. Authorization; Non-Contravention. The execution, delivery and performance by Borrower and any guarantor, as applicable, of this Agreement and other Loan Documents to which it is a party are within its power, have been duly authorized by all necessary action taken by the duly authorized officers of Borrower and any guarantors and, if necessary, by making appropriate filings with any governmental agency or unit and are the



legal, binding, valid and enforceable obligations of Borrower and any guarantors; and do not (i) contravene, or constitute (with or without the giving of notice or lapse of time or both) a violation of any provision of applicable law, a violation of the organizational documents of Borrower or any guarantor, or a default under any agreement, judgment, injunction, order, decree or other instrument binding upon or affecting Borrower or any guarantor, (ii) result in the creation or imposition of any lien (other than the lien(s) created by the Loan Documents) on any of Borrower's or guarantor's assets, or (iii) give cause for the acceleration of any obligations of Borrower or any guarantor to any other creditor. Asset Ownership. Borrower has good and marketable title to all of the properties and assets reflected on the balance sheets and financial statements supplied Bank by Borrower, and all such properties and assets are free and clear of mortgages, security deeds, pledges, liens, charges, and all other encumbrances, except as otherwise disclosed to Bank by Borrower in writing ("Permitted Liens"). To Borrower's knowledge, no default has occurred under any Permitted Liens and no claims or interests adverse to Borrower's present rights in its properties and assets have arisen. Discharge of Liens and Taxes. Borrower has duly filed, paid and/or discharged all taxes or other claims which may become a lien on any of its property or assets, except to the extent that such items are being appropriately contested in good faith and an adequate reserve for the payment thereof is being maintained. Sufficiency of Capital. Borrower is not, and after consummation of this Agreement and after giving effect to all indebtedness incurred and liens created by Borrower in connection with the Loan, will not be, insolvent within the meaning of 11 U.S.C. Section 101(32). Compliance with Laws. Borrower is in compliance in all respects with all federal, state and local laws, rules and regulations applicable to its properties, operations, business, and finances, including, without limitation, any federal or state laws relating to liquor (including 18 U.S.C. Section 3617, et seq.) or narcotics (including 21 U.S.C. Section 801, et seq.) and/or any commercial crimes; all applicable federal, state and local laws and regulations intended to protect the environment; and the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), if applicable. Organization and Authority. Each corporate or limited liability company Borrower and any guarantor, as applicable, is duly created, validly existing and in good standing under the laws of the state of its organization, and has all powers, governmental licenses, authorizations, consents and approvals required to operate its business as now conducted. Each corporate or limited liability company Borrower and any guarantor, if any, is duly qualified, licensed and in good standing in each jurisdiction where qualification or licensing is required by the nature of its business or the character and location of its property, business or customers, and in which the failure to so qualify or be licensed, as the case



may be, in the aggregate, could have a material adverse effect on the business, financial position, results of operations, properties or prospects of Borrower or any such guarantor. No Litigation. There are no pending or threatened suits, claims or demands against Borrower or any guarantor that have not been disclosed to Bank by Borrower in writing.

**AFFIRMATIVE COVENANTS.** Borrower agrees that from the date of this Agreement and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing, Borrower will: **Business Continuity.** Conduct its business in substantially the same manner and locations as such business is now and has previously been conducted. **Maintain Properties.** Maintain, preserve and keep Its property In good repair, working order and condition, making all needed replacements, additions and Improvements thereto, to the extent allowed by this Agreement. **Access to Books & Records.** Allow Bank, or its agents, during normal business hours, access to the books, records and such other documents of Borrower as Bank shall reasonably require, and allow Bank to make copies thereof at Bank's expense. **Insurance.** Maintain adequate insurance coverage with respect to its properties and business against loss or damage of the kinds and in the amounts customarily insured against by companies of established reputation engaged in the same or similar businesses including, without limitation, commercial general liability insurance, workers compensation insurance, and business Interruption Insurance; all acquired in such amounts end from such companies as Bank may reasonably require. **Notices,** Promptly notify Bank In writing of (i) any material adverse change in its financial condition or its business; (ii) any default under any material agreement, contract or other instrument to which it is a party or by which any of its properties are bound,

Page 2

or any acceleration of the maturity of any Indebtedness owing by Borrower; (iii) any material adverse claim against or affecting Borrower or any part of its properties; (iv) the commencement of, and any material determination in, any litigation with any third party or any proceeding before any governmental agency or unit affecting Borrower; end (v) at least 30 days prior thereto, any change in Borrower's name or address as shown above, and/or any change in Borrower's structure. **Compliance with Other Agreements.** Comply with all terms and conditions contained in this Agreement, and any other Loan Documents, and swap agreements, if applicable, as defined in the Note. **Payment of Debts,** Pay and discharge when due, and before subject to penalty or further charge, and otherwise satisfy before maturity or delinquency, all obligations, debts, taxes, and liabilities of whatever nature or amount, except those which Borrower in good faith disputes. **Reports and Proxies.** Deliver to Bank, promptly, a copy of all financial statements, reports, notices, and proxy statements, sent by Borrower to stockholders, and all regular or periodic reports required to be filed by Borrower with any governmental agency or authority. **Other Financial Information.** Deliver promptly such other information regarding the operation, business affairs, and financial condition of Borrower which Bank may reasonably request. **Estoppel Certificate.** Furnish, within 15 days after request by Bank, a

written statement duly acknowledged of the amount due under the Loan and whether offsets or defenses exist against the Obligations.

NEGATIVE COVENANTS, Borrower agrees that from the date of this Agreement and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing, Borrower will not: Nonpayment; Nonperformance. Pail to pay or perform the Obligations or Default (as defined in the Loan Documents) under any of the Loan Documents. Cross Default. Default in payment or performance of any obligation under any other loans, contracts or agreements of Borrower, any Subsidiary or Affiliate of Borrower ("Affiliate" shall have the meaning as defined in 11 U.S.C. Section 101, except that the term "debtor" therein shall be substituted by the term "Borrower" herein; "Subsidiary" shall mean any corporation of which more than 50% of the issued and outstanding voting stock is owned directly or Indirectly by Borrower), any general partner of or the holder(s) of the majority ownership interests of Borrower with Bank or its affiliates; Material Capital Structure or Business Alteration. Materially alter the type or kind of Borrower's business or that of its Subsidiaries or Affiliates, if any; or suffer or permit the acquisition of substantially all of Borrower's business or assets, or a material portion (10% or more) of such business or assets if such a sale is outside Borrower's ordinary course of business, or more than 50% of its outstanding stock or voting power in a single transaction or a series of transactions; or acquire substantially all of the business or assets or more than 50% of the outstanding stock or Voting power of any other entity; or enter into any merger or consolidation without prior written consent of Bank. Default on Other Contracts or Obligations. Default on any material contract with or obligation when due to a third party or default in the performance of any obligation To a third party incurred for money borrowed. Judgment Entered. Permit the entry of any monetary judgment or The assessment against, the filing of any tax lien against, or the issuance of any writ of garnishment or attachment against any property of or debts due Borrower. Government Intervention. Permit the assertion or making of any seizure, vesting or intervention by or under authority of any government by which the management of Borrower or any guarantor is displaced of its authority in the conduct of its respective business or such business is curtailed or materially impaired. Prepayment of Other Debt. Retire any long-term debt entered into prior to the date of this Agreement at a date in advance of its legal obligation to do so. Retire or Repurchase Capital Stock. Retire or otherwise acquire any of its capital stock.

FINANCIAL COVENANTS. Borrower, on a consolidated basis, agrees to the following provisions from The date of This Agreement and until final payment in full of the Obligations, unless Bank shall otherwise consent in writing: Total Liabilities to Tangible Net Worth Ratio. Borrower shall, at all times, maintain a ratio of Total Liabilities, including fully subordinated debt, divided by Tangible Net Worth of not more than 1.50 to 1.00. For purposes of this computation, "Total Liabilities" shall mean all liabilities of Borrower,

including capitalized leases and all reserves for deferred taxes and other deferred sums appearing on the liabilities side of a balance sheet of Borrower, in accordance with generally accepted accounting principles applied on a consistent basis. "Tangible Net Worth" shall mean the total assets minus total liabilities. For purposes of this computation, the aggregate amount of any intangible assets of Borrower including, without limitation, goodwill, franchises, licenses, patents, trademarks, trade names, copyrights, service marks, end brand names, shall be subtracted from total assets, and total liabilities shall include fully subordinated debt. Funds Flow Coverage Ratio. Borrower shall at all times maintain a Funds Flow Coverage Ratio of not less than 1.00 to 1.00. "Funds Flow Coverage Ratio" shall mean the sum of net profit, depreciation and amortization minus all dividends, withdrawals and non-cash income divided by the sum of all current maturities of long term debt and capital lease obligations. Limitation on Debt. Borrower shall not, directly or indirectly, create, incur, assume or become liable for any additional debt without written consent from FUNB.

ANNUAL FINANCIAL STATEMENTS. Borrower shall deliver to Bank, within 90 days after the close of each fiscal year, audited financial statements reflecting its operations during such fiscal year, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, with supporting schedules: all on a consolidated and consolidating basis and in reasonable detail, prepared in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. All such statements shall be examined by an independent certified public accountant acceptable to Bank. The opinion of such independent certified public accountant shall not be acceptable to Bank if qualified due to any limitations in scope imposed by Borrower or its Subsidiaries, if any. Any other qualification of the opinion by the accountant shall render the acceptability of the financial statements subject to Bank's approval.

PERIODIC FINANCIAL STATEMENTS. Borrower shall deliver to Bank audited quarterly financial statements, including, without limitation, a balance sheet, profit and loss statement and statement of cash flows, with supporting schedules, as soon as available and in any event within 30 days after the close of each such period; all in reasonable detail and prepared in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. Such statements shall be certified as to their correctness by a principal financial officer of Borrower and in each case, if audited statements are required, subject to audit and year-end adjustments,

Borrower shall also deliver on a quarterly basis, A/R Aging Listing & Inventory Reports, as soon as available, and in any event within 30 days after the close of each such period

CONDITIONS PRECEDENT. The obligations of Bank to make the Loan and any advances pursuant to this Agreement are subject to the following conditions precedent: Additional Documents. Receipt by Bank of Such additional supporting documents as Bank or its counsel may reasonably request.

IN WITNESS WHEREOF, Borrower and Bank, on the day and year first written above, have caused this Agreement to be executed under seal.

Fountain Pharmaceuticals, Inc.  
Taxpayer Identification Number: 62-1386759

CORPORATE  
SEAL

By: /s/ John C. Welsh  
-----  
John C. Welsh, President

First Union National Bank of Florida

/s/Ruth Kamide  
-----  
Ruth Kamide, Vice President

Page 5

FIRST UNION

LANDLORD'S/MORTGAGEE'S WAIVER

PINELLAS COUNTY, FLORIDA  
-----

KNOW ALL MEN BY THESE PRESENTS:

That for and in consideration of the sum of one dollar and other valuable considerations, the receipt of which are hereby acknowledged from the hereinafter named secured party, the undersigned, being: B.D.B.P. Enterprises (Landlord), the holder of a note secured by a mortgage, deed of trust or security agreement (security instrument) in or upon the real property described

in the lease or security instrument do hereby covenant and agree with FIRST UNION NATIONAL BANK OF FLORIDA, hereinafter called the "secured party", that the security interest acquired or to be acquired by the secured party from FOUNTAIN PHARMACEUTICALS, INC. in and to the following described goods:

All furniture; furnishings; equipment: machinery; accessories; moveable trade fixtures; goods held for sale or being processed for sale in Debtor's business, Including all raw materials, supplies, and other materials used or consumed in Debtor's business, goods in process, finished goods, and all other items customarily classified as inventory; building improvement and construction materials, supplies end equipment.

All inventory, including all raw materials and work in process to be processed into such inventory, and all accessions, attachments and other additions to, substitutes for, replacements for, improvements to and returns of such inventory, all accounts arising from the disposition of Inventory.

which have been or may be Installed upon or affixed to the above described real property, shall be senior end paramount to the rights of the undersigned in and to said real property and, upon default under the terms end provisions of the security agreement or security agreements creating or evidencing the said security interest, the secured party, or the assigns of the secured party may remove the above described goods from the said real property without liability to the undersigned.

The undersigned agree to make this waiver known to any translates of the premises or note secured by the security instrument and further agree to notify the secured party of any default in the lease or security instrument at least ten days prior to termination or foreclosure during which time secured party shall have the, option to cure any such default,

In witness whereof the undersigned have executed, sealed and delivered this waiver Oct 27 , 1996.

-----

SIGNED, SEALED AND DELIVERED

B.D.B.P. Enterprises (Landlord)  
-----

By: /s/Manual Garcia  
-----  
Manual Garcia

STATE OF FLORIDA  
COUNTY OF PINELLAS

-----

The foregoing instrument was acknowledged before me this 17th day of October, 1996, by Manual Garcia as "VICE PRESIDENT" of "B.D.B.P. Enterprises (Landlord) who is "personally known" to me or has produced \_\_\_\_\_ as identification and who did/did not take an oath.

/s/Denise A. Braun

-----

" SEAL " Denise A Braun  
My Commission CC617264  
Expires Dec. 11, 1999

NOTARY PUBLIC  
State of Florida, at Large  
My commission expires: 12/11/99

-----

FIRST UNION

CERTIFICATE OF BORROWING RESOLUTION

I, the undersigned, hereby certify to FIRST UNION NATIONAL BANK OF FLORIDA ("Bank") that I am the President of Fountain Pharmaceuticals, Inc. {"Corporation"}, a Corporation duly organized and existing under the laws of the State of Florida; that the following is a true copy of the Resolution duly adopted by the Board of Directors on October 17, 1996; and that such Resolution Is in full force and effect and has not been amended or rescinded, and that there is no provision in the Articles of Incorporation, Charter or By-laws of the Corporation, limiting the power of the Board of Directors to pass the following Resolution, which is in full conformity with the provisions of the Articles of Incorporation, Charter or By-laws of the Corporation.

1. RESOLVED, that EACH of the present holder(s) of the following office(s) and/or position(s) of Corporation and his successor(s) in office, membership or position:

President

is hereby authorized, on behalf of, in the name of and for the account of Corporation to:

- a. borrow money and/or obtain or continue credit (with or without security) from Bank, upon such terms and conditions and In such amounts as such officer(s), member(s) or position-holder(s) may deem desirable;
- b. execute and/or endorse all documents necessary or required by Bank to evidence or consummate any loan to Corporation;
- c. guarantee the obligations of others to Bank;
- d. engage In business transactions of all nature end kind and/or to enter into all manner of contractual relationships with Bank;
- a. grant or assign a security interest of any kind in property, whether real, personal, tangible, intangible and/or mixed, pledged by Corporation as collateral securing payment or any performance relative to any lean to Corporation;
- f. sell, purchase and/or lease real, personal, tangible, intangible, and/or mixed property to/from Bank;
- g. enter Into, execute and deliver, and perform Corporation's obligations under any swap agreement with Bank as defined in 11 USC Section 101 [55), derivative agreement or foreign exchange agreement, and execute any and all documents relative thereto as may be necessary or required by Bank;

2. RESOLVED FURTHER, that foregoing authority shall not be limited to the above-identified or described officer(s), member(s), position-holder(s) or other representative(s) of Corporation but shall extend to such additional or different individuals as are named as being so authorized in any letter, form or other written or oral notice by any officer, member,



position-holder or other representative of Corporation identified or described above;

3. RESOLVED FURTHER, that the President of Corporation shall furnish Bank a certified copy of this Resolution, and Bank is hereby authorized to deal with the present holder(s) of the above-identified or described office(s), membership(s) or position(s) under the authority of this Resolution unless and until it shall be expressly notified in writing to the contrary by Corporation;
  
4. RESOLVED FURTHER, that the President of Corporation, shall, from time to time hereafter, as changes in the personnel of the above-identified or described office(s), membership(s) or position(s) of Corporation, are made, immediately certify such changes to Bank, and that Bank shall be fully protected in relying upon such certifications of the President of Corporation, and shall be indemnified and saved harmless from any claims, demands, expenses, losses and/or damages resulting from, or growing out of, honoring the signature or any officer(s), member(s), position-holder(s), representative(s), agent(s), or employee(s) so certified, or refusing to honor any signature not so certified which is not described or stated in the foregoing Resolution;
  
5. RESOLVED FURTHER, that the President of Corporation Is authorized and directed to certify to Bank that the foregoing Resolution was duly adopted, and that the provisions thereof are in full conformity with the Articles of Incorporation, Charter or By-laws of the Corporation;
  
6. RESOLVED FURTHER, that all transactions by any officer(s), member(s), position-holder(s), representative(s), agent(s), or employee(s) of Corporation on its behalf and in its name with Bank prior to delivery of a certified copy of the foregoing Resolution is, in all respects, hereby ratified, confirmed and adopted;
  
7. RESOLVED FURTHER, that the present holder(s) of the above-identified or described office(s), membership(s) or position(s), are expressly authorized and directed to affix the seal, if any, of Corporation on any instrument and to adopt any facsimile seal for any occasion and purpose on any instrument as the seal, If any, of Corporation, and that this Resolution supersedes any By-law or other organizational document of Corporation to the contrary; and
  
8. RESOLVED FURTHER, that any person(s) authorized to act on behalf of

Corporation pursuant to the terms of this Resolution is fully authorized to take any action or exercise any powers as set out or granted by those terms In relation to any subsidiary, parent or affiliate of Corporation.

I, finally, certify that the following is the person(s) who now hold(s) the office(s), membership(s), and/or position(s) referred to In this Resolution above and' that their bona fide signatures are set forth below;

/s/John C. Walsh  
-----  
John C. Walsh, President  
President

IN WITNESS WHEREOF, i have hereunto subscribed my name(s) and affixed the seal, if any, of Corporation this October 17, 1996.

CORPORATE SEAL  
/s/John C. Walsh  
-----  
John C. Walsh, Secretary

FIRST UNION

UNCONDITIONAL GUARANTY

October 17, 1996

Fountain Pharmaceuticals, Inc.  
7279 Bryan Dairy Road  
Largo, Florida 34647  
(Individually and collectively "Borrower")

Joan D. Walsh  
1340 Gulf Blvd.  
Clearwater, Florida 34630  
{Individually end collectively "Guarantor"}

First Union National Bank of Florida  
214 North Hogan Street - FL0070  
Jacksonville, Florida 32202  
{Hereinafter referred to as "Bank"}

To induce Bank to make, extend or renew loans, advances, credit, or other financial accommodations to or for the benefit of Borrower, and In consideration of loans, advances, credit, or other financial accommodations made, extended or renewed to or for the benefit of Borrower, Guarantor hereby absolutely, irrevocably and unconditionally guarantees to Bank and its successors, assigns and affiliates the timely payment and performance of all liabilities and obligations of Borrower to Bank and its affiliates, including, but not limited to, all obligations under any notes, loan agreements, security agreements, letters of credit, swap agreements (as defined in 11 U.S. Code Section 101), instruments, accounts receivable, contracts, drafts, leases, chattel paper, Indemnities, acceptances, repurchase agreements, overdrafts, and the Loan Documents defined below, however and whenever Incurred or evidenced, whether primary, secondary, direct, indirect, absolute, contingent, due or to become due, now existing or hereafter contracted or acquired, and all modifications, extensions or renewals thereof, including without limitation all principal, interest, charges, and costs and expenses incurred thereunder {including attorneys' fees and other costs of collection incurred, regardless of whether suit is commenced} (collectively, the "Guaranteed Obligations").

Guarantor further covenants and agrees:

GUARANTOR'S LIABILITY. This Guaranty is a continuing and unconditional guaranty of payment and performance and not of collection. The parties to this Guaranty are jointly and severally obligated hereunder, This Guaranty does not impose any obligation on Bank to extend or continue to extend credit or otherwise deal with Borrower at any subsequent time. This Guaranty shall continue to be effective or be reinstated. as the case may be, if at any time any payment of the Guaranteed Obligations is rescinded, avoided or for any other reason must be returned by Bank, and the returned payment shall remain payable as part of the Guaranteed Obligations, all as though such payment had not been made. Except to the extent the provisions of this Guaranty give the Bank additional rights, this Guaranty shall not be deemed to supersede or replace any other guaranties given to Bank by Guarantor; and the obligations guaranteed hereby shall be in addition to any other obligations guaranteed by Guarantor pursuant to any other agreement of guaranty given to Bank and other guaranties of the Guaranteed Obligations.

TERMINATION OF GUARANTY. Guarantor may terminate this Guaranty by written notice, delivered personally to or received by certified or registered United States Mail by an authorized officer of the Bank at the address for notices provided herein. Such termination shall be effective with respect to Guaranteed Obligations arising more than 15 days after the date such written notice is received by said Bank officer. Guarantor may not terminate this Guaranty as to

Guaranteed Obligations (including any subsequent extensions, modifications or compromises of the Guaranteed Obligations) then existing, or to Guaranteed Obligations arising subsequent to receipt by Bank of said notice if such Guaranteed Obligations are a result of Bank's obligation to, make advances pursuant to a commitment entered into prior to expiration of the 15 day notice period, or are a result of advances which are necessary for Bank to protect its collateral or otherwise preserve its interests, Termination of this Guaranty by any single Guarantor will not affect the existing and continuing obligations of any other guarantor hereunder.

APPLICATION OF PAYMENTS, BANK LIEN AND SET-OFF, Monies received from any source by Bank for application toward payment of the Guaranteed Obligations may be applied to such Guaranteed Obligations in any manner or order deemed appropriate by Bank. Except as prohibited by law, Guarantor grants Bank a security Interest in all of Guarantor's accounts maintained with Bank and any of its affiliates (collectively, the "Accounts"). If a Default occurs, Bank is authorized to exercise its right of set-off or to foreclose its lien against any obligation of Bank to Guarantor including, without limitation, all Accounts or any other debt of any maturity, without notice.

CONSENT TO MODIFICATIONS. Guarantor consents and agrees that Bank may from time to time, In Its sole discretion, without affecting, Impairing, lessening or releasing the obligations of the Guarantor hereunder: (a) extend or modify the time, manner, place or terms of payment or performance and/or otherwise change or modify the credit terms of the Guaranteed Obligations; (b) increase, renew, or enter into a novation of the Guaranteed Obligations; (c) waive or consent to the departure from terms of the Guaranteed Obligations; (d) permit any change in the business or other dealings and relations of Borrower or any other guarantor with Bank; (e) proceed against, exchange, release, realize upon, or otherwise deal with in any manner any collateral that is or may be held by Bank in connection with the Guaranteed Obligations or any liabilities or obligations of Guarantor; and (f) proceed against, settle, release, or compromise with Borrower, any insurance carrier, or any other person or entity liable as to any part of the Guaranteed Obligations, and/or subordinate the payment of any part of the Guaranteed Obligations to the payment of any other obligations, which may at any time be due or owing to Bank; all In such manner and upon such terms as Bank may deem appropriate, and without notice to or further consent from Guarantor, No invalidity, irregularity, discharge or unenforceability of, or action or omission by Bank relating to any part of, the Guaranteed Obligations or any security therefor shall affect or impair this Guaranty.

WAIVERS AND ACKNOWLEDGMENTS. Guarantor waives and releases the following rights, demands, and defenses Guarantor may have with respect to Bank and collection of

the Guaranteed Obligations: (a) promptness and diligence in collection of any of the Guaranteed Obligations from Borrower or any other person liable thereon, and in foreclosure of any security interest and sale of any property serving as collateral for the Guaranteed Obligations; (b) any law or statute that requires that Bank make demand upon, assert claims against, or collect from Borrower or other persons or entities, foreclose any security interest, sell collateral, exhaust any remedies, or take any other action against Borrower or other persons or entities prior to making demand upon, collecting from or taking action against Guarantor with respect to the Guaranteed Obligations; including any such rights Guarantor might otherwise have had under Va. Code Sections 49-25 and 49-26, Et Seq., N.C.G.S. Section 26-7, et seq., Tenn. Code Ann. Section 47-12-101, O.C.G.A. Section 10-7-24 (and any Successor statute) and any other applicable law; (c) any law or statute that requires that Borrower or any other person be joined in, notified of or made part of any action against Guarantor; (d) that Bank preserve, insure or perfect any security interest in collateral or sell or dispose of collateral in a particular manner or at a particular time; (e) notice of extensions, modifications, renewals, or novations of the Guaranteed Obligations, of any new transactions or other relationships between Bank, Borrower and/or any guarantor, and of changes in the financial condition of, ownership of, or business structure of Borrower or any other guarantor; (f) presentment, protest, notice of dishonor, notice of default, demand for payment, notice of intention to accelerate maturity, notice of acceleration of maturity,

Page 2

notice of sale, and all other notices of any kind whatsoever; (g) the right to assert against Bank any defense (legal or equitable), set-off, counterclaim, or claim that Guarantor may have at any time against Borrower or any other party liable to Bank; (h) all defenses relating to invalidity, insufficiency, unenforceability, enforcement, release or impairment of Bank's lien on any collateral, of the Loan Documents, or of any other guaranties held by Bank; (i) any claim or defense that acceleration of maturity of the Guaranteed Obligations is stayed against Guarantor because of the stay of assertion or of acceleration of claims against any other person or entity for any reason including the bankruptcy or insolvency of that person or entity; and (j) the benefit of any exemption claimed by Guarantor. Guarantor acknowledges and represents that it has relied upon its own due diligence in making its own independent appraisal of Borrower, Borrower's business affairs and financial condition, and any collateral; Guarantor will continue to be responsible for making its own independent appraisal of such matters; and Guarantor has not relied upon and will not hereafter rely upon Bank for information regarding Borrower or any collateral.

FINANCIAL CONDITION, Guarantor warrants, represents and covenants to Bank that on and after the date hereof: (a) the fair saleable value of Guarantor's assets exceeds its liabilities, Guarantor is meeting its current liabilities as they mature, and Guarantor is and shall remain solvent; (b) all financial statements

of Guarantor furnished to Bank are correct and accurately reflect the financial condition of Guarantor as of the respective dates thereof; (c) since the date of such financial statements, there has not occurred a material adverse change in the financial condition of Guarantor; (d) there are not now pending any court or administrative proceedings or undischarged judgments against Guarantor, no federal or state tax liens have been filed or threatened against Guarantor, and Guarantor is not in default or claimed default under any agreement; and (a) at such reasonable times as Bank requests, Guarantor will furnish Bank with such other financial information as Bank may reasonably request.

INTEREST. Regardless of any other provision of this Guaranty or other Loan Documents, if for any reason the effective interest on any of the Guaranteed Obligations should exceed the maximum lawful interest, the effective interest shall be deemed reduced to and shall be such maximum lawful interest, and any sums of interest which have been collected in excess of such maximum lawful interest shall be applied as a credit against the unpaid principal balance of the Guaranteed Obligations.

DEFAULT. If any of the following events occur, a default ("Default") under this Guaranty shall exist: (a) Failure of timely payment or performance of the Guaranteed Obligations or a default under any Loan Document; (b) A breach of any agreement or representation contained or referred to in the Guaranty, or any of the Loan Documents, or contained in any other contract or agreement of Guarantor with Bank or its affiliates, whether now existing or hereafter arising; (c) The death of, appointment of a guardian for, dissolution of, termination of existence of, loss of good standing status by, appointment of a receiver for, assignment for the benefit of creditors of, or the commencement of any Insolvency or bankruptcy proceeding by or against, Guarantor or any general partner of or the holder(s) of the majority ownership interests of Guarantor; and/or (d) The entry of any monetary judgment or the assessment against, the filing of any tax lien against, or the issuance of any writ of garnishment or attachment against any property of or debts due Guarantor.

If a Default occurs, the Guaranteed Obligations shall be due immediately and payable without notice. Guarantor shall pay interest on the Guaranteed Obligations from such Default at the highest rate of interest charged on any of the Guaranteed Obligations.

ATTORNEY'S FEES AND OTHER COSTS OF COLLECTION. Guarantor shall pay all of Bank's reasonable expenses incurred to enforce or collect any of the Guaranteed Obligations, including, without limitation, reasonable arbitration, paralegals', attorneys' and experts' fees and expenses, whether incurred without the commencement of a suit, in any suit, arbitration, or administrative proceeding, or In any appellate or bankruptcy proceeding.

SUBORDINATION OF OTHER DEBTS. Guarantor agrees: (a) to subordinate the obligations now or hereafter owed by Borrower to Guarantor ("Subordinated Debt", to any and all obligations of Borrower to Bank now or hereafter existing while this Guaranty is In effect, provided however that Guarantor may receive regularly scheduled principal and interest payments on the Subordinated Debt so long as (i) all sums due and payable by Borrower to Bank have been paid in full on or prior to such date, and (it) no event Or condition which constitutes or which with notice or the lapse or time would constitute an event of default with respect to the Guaranteed Obligations, shall be continuing on or as of the payment date; (b) Guarantor will place a legend indicating such subordination on every note, ledger page or other document evidencing any part of the Subordinated Debt; and (c) except as permitted by this paragraph, Guarantor will not request or accept payment of or any security for any part of the Subordinated Debt, and any proceeds of the Subordinated Debt paid to Guarantor, through error or otherwise, shall immediately be forwarded to Bank by Guarantor, properly endorsed to the order of Rank, to apply to the Guaranteed Obligations.

MISCELLANEOUS. (a) Assignment. This Guaranty and other Loan Documents shall Inure to the benefit of and be binding upon the parties and their respective heirs, legal representatives, successors and assigns. Bank's interests in and rights under this Guaranty and other Loan Documents are freely assignable, in whole or in part, by Bank. Any assignment shall not release Guarantor from the Guaranteed Obligations. (b) Applicable Law; Conflict Between Documents, This Guaranty and other Loan Documents shall be governed by and construed under the laws of the state in which office of Bank first Shown above is located without regard to that state's conflict of laws principles. If the terms of this Guaranty should conflict with the terms of any commitment letter that survives closing, the terms of this Guaranty shall control, (c) Jurisdiction, Guarantor irrevocably agrees to non-exclusive personal jurisdiction in the state in which the office of Bank first shown above is located. (d) Severability. If any provision of this Guaranty or of the other Loan Documents shall be prohibited or Invalid under applicable law, such provision shall be Ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty or other document. (a) Notices. Any notices to Guarantor shall be sufficiently given, if in writing and mailed or delivered to the Guarantor's address shown above or such other address as provided hereunder, and to Bank, if in writing and mailed or delivered to Bank's office address shown above or such other address as Bank may specify in writing from time to time. In the event that Guarantor changes Guarantor's address at any time prior to the date the Guaranteed Obligations are paid in full, Guarantor agrees to promptly give written notice of said change of address by registered or certified mail, return receipt requested, all charges prepaid. (f) Plural; Captions. All references in the Loan Documents to borrower, guarantor, person, document or other nouns of reference mean both the singular and plural form, as the case may be, and the term "person" shall mean any Individual, person or entity. The captions contained in the Loan Documents are inserted for convenience only and shall not effect the meaning or Interpretation of the Loan Documents. (g) Binding Contract. Guarantor by execution of and Bank by acceptance of this Guaranty agree that each party is bound to, all terms and provisions of this Guaranty. (h) Amendments, Waivers end Remedies. No waivers, amendments or modifications of this Guaranty and other Loan Documents shall be



valid unless in writing and signed by an officer of Bank. No waiver by Bank of any Default shall operate as a waiver of any other Default or the same Default on a future occasion. Neither the failure nor any delay on the part of Bank in exercising any right, power, or privilege granted pursuant to this Guaranty and other Loan Documents shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise or the exercise of any other right, power or privilege. All remedies available to Bank with respect to this Guaranty and other Loan Documents and remedies available at law or In equity shall be cumulative and may be pursued concurrently or successively. (i) Partnerships, If Guarantor Is a partnership, the obligations, liabilities and agreements On the part of Guarantor shall remain in full force and effect and fully applicable notwithstanding any changes in the individuals

Page 4

comprising the partnership. The term "Guarantor" includes any altered or successive partnerships, and predecessor partnership(s) and the partners shall not be released from any obligations or liabilities hereunder. (j) Loan Documents. The term "Loan Documents" refers to all documents executed in connection with the Guaranteed Obligations and may include, without limitation, commitment letters that survive closing, loan agreements, other guaranty agreements, security agreements, instruments, financing' statements, mortgages, deeds of trust, deeds to secure debt, letters of credit and any amendments or supplements (excluding swap agreements as defined in 11 U.S. Code Section 101).

ANNUAL FINANCIAL STATEMENTS. Guarantor shall deliver to Bank annually, within thirteen months of the previous statement date on file with Rank, Guarantor's financial statement. Said financial statement shall disclose all of Guarantor's assets, liabilities, net worth income and contingent liabilities, all in reasonable detail and acceptable to Bank end submitted on a form to be provided by Bank or on such other form acceptable to Rank, signed by Guarantor and certified by Guarantor to Rank to be true, correct and complete.

ARBITRATION. Upon demand of any party hereto, whether made before or after institution of any judicial proceeding, any dispute, claim or controversy arising out of, connected with or relating to this Guaranty, and other Loan Documents ("Disputes") between or among parties to this Guaranty shall be resolved by binding arbitration as provided herein. Institution of a judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include, without limitation, tort claims, counterclaims, disputes as to whether a matter is subject to arbitration, claims brought as class actions, claims arising from Loan Documents executed in the future, or claims arising out of or connected with the transaction reflected by this Guaranty.

Arbitration shall be conducted under and governed by the Commercial Financial Disputes Arbitration Rules (the "Arbitration Rules") of the American Arbitration



Association (the "AAA") and Title 9 of the U.S. Code. All arbitration hearings shall be conducted in the city in which the office of Bank first stated above is located. The expedited procedures set forth in Rule 51 et seq. of the Arbitration Rules shall be applicable to claims of less than \$1,000,000.00, All applicable statutes of limitation shall apply to any Dispute. A judgment upon the award may be entered in any court having jurisdiction, The panel from which all arbitrators are selected shall be comprised of licensed attorneys. The single arbitrator selected for expedited procedure shall be a retired judge from the highest court of general jurisdiction, state or federal, of the state where the hearing will be conducted or if such person is not available to serve, the single arbitrator may be a licensed attorney. Notwithstanding the foregoing, this arbitration provision does not apply to disputes under or related to swap agreements.

PRESERVATION AND LIMITATION OF REMEDIES, Notwithstanding the preceding binding arbitration provisions, Bank and Guarantor agree to preserve, without diminution, certain remedies that any party hereto may employ or exercise freely, independently or in connection with an arbitration proceeding or after an arbitration action is brought. Bank and Guarantor shall have the right to proceed in any court of proper jurisdiction or by self-help to exercise or prosecute the following remedies, as applicable: (i) all rights to foreclose against any real or personal property or other security by exercising a power of sale granted under Loan Documents or under applicable law or by judicial foreclosure and sale, including a proceeding to confirm the sale; (ii) all rights of self-help including peaceful occupation of real property and collection of rents, set-off, and peaceful possession of personal property; (iii) obtaining provisional or ancillary remedies including injunctive relief, sequestration, garnishment, attachment, appointment of receiver and filing an involuntary bankruptcy proceeding; and (iv) when applicable, a judgment by confession of judgment. Preservation of these remedies does not limit the power of an arbitrator to grant similar remedies that may be requested by a party in a Dispute.

Page 5

Guarantor and Bank agree that they shall not have a remedy of punitive or exemplary damages against the other in any Dispute and hereby waive any right or claim to punitive or exemplary damages they have now or which may arise in the future in connection with any Dispute whether the Dispute is resolved by arbitration or judicially.

IN WITNESS WHEREOF, Guarantor, on the day and year first written above, has caused this Unconditional Guaranty to be executed under seal.

/s/Joan D, Walsh

(SEAL)

-----  
Joan D. Walsh

Taxpayer Identification Number: ###-##-####

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF FOUNTAIN PHARMACEUTICALS, INC. FOR YEAR ENDED SEPTEMBER 30, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	SEP-30-1996
<PERIOD-START>	OCT-01-1995
<PERIOD-END>	SEP-30-1996
<CASH>	67
<SECURITIES>	0
<RECEIVABLES>	236
<ALLOWANCES>	0
<INVENTORY>	105
<CURRENT-ASSETS>	454
<PP&E>	264
<DEPRECIATION>	232
<TOTAL-ASSETS>	631
<CURRENT-LIABILITIES>	220
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	48
<OTHER-SE>	239
<TOTAL-LIABILITY-AND-EQUITY>	631
<SALES>	1,677
<TOTAL-REVENUES>	1,677
<CGS>	854
<TOTAL-COSTS>	854
<OTHER-EXPENSES>	810
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	21
<INCOME-PRETAX>	(32)
<INCOME-TAX>	0
<INCOME-CONTINUING>	(32)
<DISCONTINUED>	0
<EXTRAORDINARY>	335
<CHANGES>	0
<NET-INCOME>	303

<EPS-PRIMARY>  
<EPS-DILUTED>

.01  
.01

</TABLE>