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

FORM 10-K

/x/ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1997

Commission File Number 0-9314

ACCESS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	83-0221517
(State of Incorporation)	(I.R.S. Employer I.D. No.)

2600 Stemmons Freeway, Suite 176, Dallas, TX	75207
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code:(214) 905-5100

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

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

Common Stock, Four Cents ($0.04) Par Value

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirement for the past 90 days. Yes /x/ No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. / /

The aggregate market value of the outstanding voting stock held by non-affiliates of the registrant as of March 27, 1998 was approximately $5,957,000.

As of March 27, 1998 there were 37,442,343 shares of Access Pharmaceuticals, Inc. Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of Registrant's Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the 1998 Annual Meeting are incorporated herein by reference into Part III of this report. Other references incorporated are listed in the exhibit list in Part IV of this report.

PART I - FINANCIAL INFORMATION

ITEM 1. BUSINESS

Overview of Current Operations

Access Pharmaceuticals, Inc. (together with its subsidiary, "Access" or the "Company") was founded in 1974 as Chemex Corporation, a Wyoming corporation, and in 1983 changed its name to Chemex Pharmaceuticals,

Inc. ("Chemex"). Chemex changed its state of incorporation from Wyoming to Delaware on June 30, 1989. In connection with the merger of Access Pharmaceuticals, Inc., a Texas corporation ("API"), with and into the Company on January 25, 1996, (the "Merger"), the name of the Company was changed to Access Pharmaceuticals, Inc.

On December 9, 1997, a wholly-owned subsidiary of the Company merged with Tacora Corporation ("Tacora"), a privately-held pharmaceutical company based in Seattle, Washington, whereby Tacora became a wholly-owned subsidiary of the Company. Under the terms of the merger agreement, based upon the achievement of certain milestones enumerated in the merger agreement, the Company currently may be required to issue up to approximately 2,750,000 shares of Common Stock to the former stockholders of Tacora. Such shares of Common Stock are payable at an escalating value over the milestone period.

Access's principal executive office is at 2600 Stemmons Freeway, Suite 176, Dallas, Texas 75207; its telephone number is (214) 905-5100.

Business Summary

Access is a drug delivery company using advanced polymer technology for application in cancer treatment, dermatology and imaging. In addition, the Company has developed a drug to treat canker sores that was sold to Block Drug Company ("Block") and is currently being marketed in the United States by Block subject to a royalty agreement with the Company. The Company's lead compounds are as follows:

Polymer Platinate (AP 5070) - Platinum compounds are one of the largest selling categories of chemotherapeutic agents with annual sales in excess of $800 million. As is the case with all chemotherapeutic drugs, the use of Cisplatin is associated with serious systemic side effects. The drug delivery goal therefore is to enhance delivery of the drug to the tumor and minimize the amount of drug affecting normal organs in the body. The Company's Polymer Platinate, (as to which the Company has applied for patents) seeks to achieve this goal by attaching a large polymer to a small Platinum molecule, taking advantage of the fact that the cells lining the walls of blood vessels that feed tumors are usually leaky or hyperpermeable, allowing the large Polymer Platinate molecule to enter the tumor in preference to other tissue, which does not have leaky or hyperpermeable blood vessels. On the other hand, the capillary/lymphatic drainage system of tumors is not well developed and limited, so the drug gets trapped in the tumor. This effect is called enhanced permeability and retention (EPR). In addition, the polymer is designed to shield the Platinate to minimize interactions with normal cells, thereby reducing toxicity. The proposed mechanism of drug uptake by tumor cells bypasses known membrane associated mechanisms for development of tumor resistance, which could provide a further significant clinical advantage in treating drug resistant patients and avoiding drug resistance.

In animal models, the Company's Polymer Platinate has delivered up to 63 times the amount of Platinum to tumors compared with Cisplatin alone at the maximum tolerated dose, and the Company's Polymer Platinate was approximately 2.5 times more effective in inhibiting tumor growth than Cisplatin alone. In

terms of dosing, in animal studies, up to 15 times more Platinum has been injected using the Company's Polymer Platinate, which could be clinically significant as Platinum has a steep dose response curve. Consequently, clinical outcome could be greatly improved as a result of the ability to deliver additional drug to the tumor.

The Company plans to commence human clinical trials for its Polymer Platinate in the next 12 months, if the results of additional ongoing activities are successful.

Zinc Clindamycin - The addition of zinc to a drug has the effect of enhancing the penetration of the drug into the skin, yet holding the drug in the skin, making zinc effective for the delivery of dermatological drugs. The Company has a broad patent covering the use of zinc for such purposes.

The first zinc drug being developed by Access, in conjunction with its licensing partner, is Zinc Clindamycin for the treatment of acne. Acne drugs constitute an approximately $700 million dollar per year market. Clindamycin is a widely prescribed drug for the treatment of acne, and Access believes that the addition of zinc could potentially significantly increase the effectiveness of the drug through the reservoir effect of zinc, the activity of zinc and Clindamycin, the improved stability of the product and the potential for zinc to overcome certain bacterial resistance. Clinical trials for Zinc Clindamycin are planned to commence in the second half of 1998.

The Company believes that its zinc technology could provide a broad development platform for improved delivery of many topically applied products. The next product to be developed is expected to be zinc with Bethamethazone, for applications in a variety of inflammatory dermatological conditions. Additional developments are planned using vitamin D, retanoids and anti-fungals.

Access had entered into a license agreement with Strakan Limited ("Strakan") relating to its zinc technology. Strakan has agreed to fund the development costs of Zinc Clindamycin and any additional compounds developed utilizing the zinc patent, and will share equally all milestones payments received from the sublicensing of the compound. In addition, Access will receive a royalty on sales of products based on this technology.

MRI Imaging Agent - Magnetic resonance imaging (MRI) is a non-radioactive method of producing imaging for the diagnosis of a broad range of diseases and conditions. To date, for the diagnosis of cancer, the sensitivity of MRI has been insufficient to pick up very small tumors. The Company is developing an imaging agent that may greatly enhance the ability of MRI to detect certain small tumors. Currently, gadolinium, a rare earth metal, is used as an imaging agent in MRI, but its use is restricted to imaging brain tumors and the central nervous system. The problem is that gadolinium alone defuses much too rapidly throughout the body and is eliminated very quickly. The Access imaging agent consists of gadolinium bound to a chelate and attached to a polymer that selectively binds to tumors. Animal studies have indicated that the use of this imaging agent can result in up to 40% brighter images and the ability to detect tumors significantly smaller than currently available techniques. In addition, in

animal studies, the imaging agent has increased the time period during which images can be taken by factor of up to four, which would be a major practical advantage in diagnosing patients.

Access has a collaboration with The Dow Chemical Company ("Dow Chemical") to develop an improved compound utilizing Dow Chemical's chelation technology to bind gadolinium and attach to the polymer. In prior formulations of the imaging agent, the chelator was considered insufficiently pure for purposes of clinical development.

Amlexanox - This is currently the only compound approved by the FDA for the treatment of canker sores. Independent market research sponsored by the Company indicates that more than 7 million patients visit doctors or dentists per year in the United States with complaints of canker sores. In 1995, Access sold amlexanox to Block subject to a retained royalty. Access is currently in negotiations with Block for the international rights to the product (except for Japan). On the closing of such an agreement Access has agreed to grant Strakan rights to the product for the United Kingdom and Ireland. Strakan has commenced the European registration process for the product. It is anticipated that the product will be registered throughout Europe in 1999. An international outlicensing program is ongoing.

Access has commenced work on developing an over-the-counter version of amlexanox, which could have significantly higher sales potential than the prescription drug. In addition, Block has an Investigational New Drug Application ("IND") to commence clinical trials to expand the number of indications for amlexanox. The Company expects that such trials will initially focus on treatment of mucositis in chemotherapy patients.

Access owns additional patented advanced technologies designed to deliver drug in response to specific diseases or take advantage of biological mechanisms. This technology includes potential vaccine delivery and recognition of disease sites, including cancer. These technologies are designed to provide the Company's next advanced drug delivery product development candidates.

Company Profile

Access is a Site-Directed Targeting Company using biresponsive drug carriers to target and control the release of therapeutic agents into sites of disease activity and clear the non-targeted fraction.

Company Vision

Lead the industry in the Site-Directed Targeting and Controlled Release of therapeutic agents that take advantage of the body's biological mechanisms to enhance the clinical effectiveness and reduce the toxicity of a broad range of potent drugs.

Drug Development Strategy

Part of Access' integrated drug development strategy is to form creative alliances with centers of excellence so drug delivery opportunities can be fully maximized. Access has signed agreements with The School of Pharmacy, University of London for platinate polymer technology, Dow Chemical in chelation

technology for imaging products and radiopharmaceuticals, Strakan Ltd for the delivery of topical therapeutic agents which exploit the Access zinc patent and Duke University for advanced drug delivery systems.

The Access strategy is to initially focus on utilizing its technology in combination with approved drug substances to develop novel patentable formulations of potential therapeutic and diagnostic products. The Company believes that this will expedite product development, both preclinical and clinical, and ultimately product approval. To reduce financial risk and equity financing requirements, Access is directing its resources to the preclinical and early clinical phase of development and plans to outlicense to, or co-develop with, marketing partners its current product candidates during the clinical development phases.

Access has initiated and will continue to expand its internal core capabilities of chemistry, formulation, analytical methods development, initial process scale up, carbohydrate analysis, drug/diagnostic targeting screens and project management capability to maximize product opportunities in a timely manner. The manufacturing scaleup, preclinical testing and product production will be contracted to research organizations, contract manufacturers and strategic partners. Given the current cost containment and managed care environment both in the United States and overseas and the difficulty for a small company to effectively market its products, Access does not currently plan to become a fully integrated pharmaceutical company.

Consequently, Access expects to form strategic alliances for product development and to outlicense the commercial rights to development partners. By forming strategic alliances with major pharmaceutical and diagnostic companies, it is believed that the Access technology can be more rapidly developed and successfully introduced into the marketplace.

Scientific Background

The ultimate criterion of effective drug delivery is to control and optimize the localized release of drug at the target site and rapidly clear the non-targeted fraction. Conventional drug delivery systems such as controlled release, sustained release, transdermal systems, etc., are based on a physical erosion process for enhancing active product into the systemic circulation with the objective of improving patient compliance. These systems do not address the biologically relevant issues such as site targeting, localized release and clearance of drug. The major factors that impact the achievement of this ultimate drug delivery goal are the physical characteristics of the drug and the biological characteristics of the disease target sites. The physical characteristics of the drug affect solubility in biological systems, its biodistribution throughout the body, and its interactions with the intended pharmacological target sites and undesired areas of toxicity. The biological characteristics of the diseased area impact the ability of the drug to selectively interact with the intended target site to allow the drug to express the desired pharmacological activity. The Access technology platforms are differentiated from conventional drug delivery systems in that they seek to apply a disease specific approach to improve the drug delivery process with polymer carrier

formulations to significantly enhance the therapeutic efficacy and reduce toxicity of a broad spectrum of products. This is achieved by utilizing Bio~Responsive TM Polymers as novel drug delivery solutions to match the specific physical properties of each drug with the biological characteristics of each disease and targeting sites of disease activity. The Company believes that the ability to achieve physiological triggering of drug release at the desired site of action could enable the Access Bio~Responsive TM Polymers to potentially have broad therapeutic applications in the site specific delivery of chemotherapeutic agents in cancer, infection, inflammation, drugs for other autoimmune diseases, proteins, peptides and gene therapy.

Bio~Responsive TM Polymers mimic the natural transport mechanisms in the body which are involved in the localized delivery of biological mediators and cellular trafficking. Access uses a multi-faceted approach through the use of both natural carbohydrates and synthetic polymers. Access' central focus is to use Bio~Responsive TM Polymers systems that

can respond to normal biochemical or disease-induced signals to localize drug carrier and release drug in a highly selective fashion. These polymeric drug carriers can be applied to a wide range of drug molecules including proteins and nucleotides and can be engineered to control pharmacokinetics and body distribution, site-selectivity, site-release of drug and drug clearance from non-target sites.

Access Core Technology Platforms

Access' current technology platforms take advantage of the following biological mechanisms to improve drug delivery:

* disease specific carbohydrate recognition by vascular endothelial cells and underlying tissue

* enhanced permeability and retention in tumors

* triggered secretion of biological mediators

Access Carbohydrate Polymer Drug Delivery Technology

The Access carbohydrate polymer drug delivery technology exploits specific changes in the vascular endothelium that occur during disease processes. These carriers mimic disease-specific, carbohydrate recognition by vascular endothelium cells and underlying tissue. It has been well established that white blood cells can recognize, target and permeate disease sites by means of surface carbohydrates which bind to cytokine-induced endothelium plus underlying tissue and cells. A number of receptors on the endothelium and on underlying tissue are known to bind sulfated glycosaminoglycans, such as heparin and dermatan sulfate. Access has developed glycosaminoglycan carriers to selectively image and treat diseases involving the neovascular endothelium. Access believes that its glycosaminoglycan technology has broad potential in a number of therapeutic applications including cancer, inflammation and infection.

Access Synthetic Soluble Polymer Drug Delivery Technology

In collaboration with The School of Pharmacy, University of London, Access has developed a number of

synthetic polymers, including hydroxypropylmethacrylamide co-polymers and polyamidoamines designed to be used to exploit EPR ("enhanced permeability and retention") in tumor cells and control drug release. Many solid tumor cells possess vasculature that is hyperpermeable (i.e., "leaky") to macromolecules. In addition to this enhanced permeability, tumors usually lack effective lymphatic and/or capillary drainage. Consequently they selectively accumulate circulating macromolecules (up to 10% of an intravenous dose per gram in mice). This effect has been termed EPR, and is thought to constitute the mechanism of action of SMANCS (styrene-maleic/anhydride-neocarzinostatin), which is in regular clinical use in Japan for the treatment of hepatoma. These polymers take advantage of endothelial permeability with the drug carrying polymers getting trapped in tumors and then being taken up by tumor cells. Linkages between the polymer and drug can be designed to be cleaved extracellularly or intracellularly. Drug is released inside the tumor mass while polymer/drug not trapped in tumors is renally cleared from the body. Data generated in animal studies have shown that the polymer/drug complexes are far less toxic than free drug alone and that greater efficacy can be achieved. Thus, these polymer complexes have demonstrated significant improvement in the therapeutic index of anti-cancer drugs, e.g. cisplatin.

Access Condensed Phase Smart Polymer Drug Delivery Technology

The Access condensed phase polymer system is based on the Smart Polymer Matrixes of Secretory Granules from secretory cells such as the mast cell or goblet cell. The matrix in the secretory granule of the mouse mast cell contains a negatively charged, heparin proteoglycan network which condenses in the presence of divalent cations, such as calcium and histamine, and monovalent cations, such as sodium. This matrix has a number of unique electrical and mechanical properties in response to biochemical or electrical signals. The heparin gel expands several-fold when a secretory granule fuses with a cell membrane, allowing ions from outside the cell to rush in, causing release of contents. Thus, nature has evolved a highly advanced "smart polymer" gel to control the storage and release of molecules destined for exocytosis. These ubiquitous natural mechanisms can be mimicked by engineering smart polymer matrices to deliver a wide range of molecules, including proteins and genes, in response to specific triggering stimuli. This natural mechanism provides the basis of a novel technology for releasing drugs on demand, with avoidance of systemic toxicities. Access has commenced the development of a system to mimic the secretory granule matrix to meet the biological requirement of different drugs, delivery routes and disease processes. In a unique inventive step, bioengineered, pore-forming proteins, with triggers and switches that self assemble in membranes, can be incorporated

into coated particles to control drug release. This represents a logical step in the development of the next generation of Access drug delivery technology platforms towards commercialization of systems that can trigger the release of drug, at site, in response to disease-specific signals. Initial proof of concept will focus on the triggered release of chemotherapeutic cancer and anti-inflammatory agents and vaccines.

Access Topical Delivery Technology

Access has granted a license to Strakan, for the development of compounds that utilize zinc ions to produce a reservoir of drug in the skin to increase the efficacy of topically applied products and to reduce toxicity. There are many localized disease conditions, which are effectively treated by topical application of suitable pharmaceutical agents. In order for such treatments to be maximally effective, it is necessary that as much of the active agent as possible be absorbed into the skin where it can make contact with the disease condition in the dermal tissue without being lost by rubbing off on clothing or evaporation. At the same time, the agent must not penetrate so effectively through the skin that it is absorbed into the systemic circulation. This latter factor is especially important after trying to minimize unwanted side-effects of the pharmacologically active agent. The ideal vehicle for topically applied pharmaceuticals is one which can produce a "reservoir effect" in the skin or mucous membranes. Such a reservoir effect can be produced by the complexation of suitable pharmaceutical agents with zinc ions, by an as yet unknown mechanism. This "reservoir effect" is defined as an enhancement of the skin or membrane's ability to both absorb and retain pharmacological agents, i.e.:

- To increase skin or membrane residence time
- To decrease drug transit time
- To reduce transdermal flux

A number of compounds are known to enhance the ability of pharmacologically active agents to penetrate the skin, but have the disadvantage of allowing rapid systemic dispersion away from the site of disease. Many topical agents, such as the retinoids used in the treatment of acne, and methotrexate, used in the treatment of psoriasis, are systemically toxic. There is therefore a need for a method of enhancing the ability of such agents to penetrate the skin so that a lesser total dosage may be used, while at the same time retarding their ability to move from the skin to the systemic circulation.

Under the terms of this agreement Strakan has agreed to fund the development costs of Zinc Clindamycin and any additional compounds developed utilizing the zinc patent, and will share equally in all milestone payments received from sublicensing of the compound. In addition, the Company will receive a royalty on sales of products based on this technology.

Research Projects, Products and Products in Development

ACCESS DRUG PORTFOLIO

<TABLE>
<CAPTION>

Compound	Originator	Indication	FDA Filing	Clinical Stage(1)
Cancer				
<S>	<C>	<C>	<C>	<C>
AP 4010	Access	Anti-tumor	Development	Pre-Clinical
AP 5070	Access	Anti-tumor	Development	Pre-Clinical
AP 2011	Access	MRI Contrast Agent	Development	Research
Radiopharmaceutical	Access	Cancer Diagnosis	Development	Research
Amlexanox(2)	Takeda	Mucositis	IND Phase	Phase I
Topical Delivery				

- ----------
Amlexanox(2)
(CHX-3673) Takeda Oral ulcers FDA Approved Completed
Zinc compound(3) Access Enhancing drug Development Pre-Clinical
penetration and
retention in the
skin (acne)
</TABLE>

(1) See "Government Regulations" for description of clinical stages.
(2) Sold to Block. Subject to a Royalty Agreement.
(3) Licensed to Strakan.

Access begins the product development effort by screening and formulating potential product candidates, selecting an optimal active and formulation approach and developing the processes and analytical methods. Pilot stability, toxicity and efficacy testing are conducted prior to advancing the product candidate into formal preclinical development. Specialized skills are required to produce these product candidates utilizing the Access technology. Access has a core internal development capability with significant experience in these formulations.

Once the product candidate has been successfully screened in pilot testing, Access' scientists together with external consultants, assist in designing and performing the necessary preclinical efficacy, pharmacokinetic and toxicology studies required for IND submission. External investigators and scaleup manufacturing facilities are selected in conjunction with Company consultants. Access does not plan to have an extensive clinical development organization as this is planned to be conducted by a development partner.

With all of Access's product development candidates, there can be no assurance that the results of the in vitro or animal studies are or will be indicative of the results that will be obtained if and when these product candidates are tested in humans. There can be no assurance that any of these projects will be successfully completed or that regulatory approval of any product will be obtained.

The Company (both Chemex and API) expended approximately $2,433,000, $1,405,000 and $1,981,000 on research and development during the years 1997, 1996 and 1995, respectively. Expenditures on research and development are expected to increase during 1998 and subsequent years, subject to funding.

Approved Product Amlexanox

Amlexanox is the first and only prescription medication indicated specifically for the treatment of canker sores, in

patients with normal immune systems.
There are numerous OTC products available which will temporarily relieve the pain associated with canker sores, however, amlexanox is the only prescription medication specifically indicated to treat canker sores. Current estimates indicate approximately 20% of the U.S. adult population suffers from canker sores, of which 15 million patients claim their canker sores recur.

Block has the worldwide rights to the product and have launched the product in the United States in December 1997. Access is currently in negotiations with Block with respect to the international rights to the

product (expect Japan). On the closing of such an agreement, Access has agreed to grant Strakan rights to the product for the United Kingdom and Ireland. Strakan has commenced the European registration process for the product. It is anticipated that the product will be registered throughout Europe in 1999. An international outlicensing program is ongoing.

Development Program Topical Delivery

Access has a patent for enhancing drug penetration and retention in the skin utilizing zinc ions, which is licensed to Strakan. A wide range of agents are potentially suitable for complexing with zinc ions, with examples from all of the major dermatological product groups including, anti-bacterials, anti-fungals, steroids, anti-histamins, analgesics, anti-inflammatories and anti-psoriasis agents.

Zinc clindamycin - the most advanced development (scheduled for clinical testing commencing in the second half of 1998) is a combination of zinc and clindamycin in the treatment of acne. The market for acne treatments exceeds $700 million in Europe and the USA. The potential product advantage of this development is anticipated to be improved efficacy and/or reduced dosing.

Zinc steroid - formulation development has commenced on incorporating a steroid in a zinc complex. It is anticipated that preclinical development will be concluded in 1998, with clinical testing commencing in early 1999. Due to the serious side effects of corticosteroids, potent steroids are used only when a condition is unresponsive to milder treatment. A broader usage of more potent steroids could be achieved utilizing zinc ions to reduce uptake in circulatory systems and consequently significantly reduce side effects.

Development Programs Cancer

Approximately one-fourth of all deaths in the United States are due to malignant tumors. More than 85% of these are solid tumors, and approximately half of the patients with these tumors die of their disease. The cause of death is usually metastatic disease distant from the original tumor, although uncontrolled primary tumors can also be fatal. The distant metastases are treated systematically with anti-cancer drugs and biological agents, but these attempts are often unsuccessful. The cost of treating these patients is enormous, and in 1995 the estimated bill was $50 billion or 5% of the nation's total medical bill. As the population ages and new sophisticated diagnostic tests are launched, incidence of detected cancer continues to rise.

Chemotherapy, surgery and radiation are the major components in the clinical management of cancer patients. Chemotherapy is usually the primary treatment of hematologic malignancies, which cannot be excised by surgery, and is increasingly used as an adjunct to radiation and surgery, to improve efficacy, and is used as the primary therapy for some solid tumors and metastases. The current optimal strategy for chemotherapy involves exposing patients to the most intensive cytotoxic regimens they can tolerate. Clinicians attempt to design a combination of drugs, dosing schedule and method of administration to increase the probability that cancerous cells will be destroyed while minimizing the harm to healthy cells.

For chemotherapeutic agents to be effective in treating cancer patients, the agent must reach the target cells in effective quantities with minimal toxicity in normal tissues.

Most current drugs have significant limitations. Certain cancers are inherently unresponsive to chemotherapeutic agents, other cancers initially respond but subgroups of cancer cells acquire resistance to the drug during the course of therapy, with the resistant cells surviving and resulting in relapse. Another limitation of current anti-cancer drugs is that serious toxicity, including bone marrow suppression or irreversible cardiotoxicity, can prevent their administration in curative doses.

The Access anti-cancer program is designed to overcome the physiological barriers to penetration of drugs into tumor tissue by targeting potent drugs into sites of disease activity and clearing the non-targeted fraction.

Polymer Platinate, AP-5070 - Access, in conjunction with The School of Pharmacy, University of London, is developing a soluble, synthetic polymer conjugate formulation of cisplatin for the first line treatment of solid tumors in indications where cisplatin is currently approved. Preliminary animal studies indicate:

* improved efficacy over standard cisplatin at maximum tolerated dose
* reduced toxicity over standard cisplatin
* enhanced tumor uptake and retention of polymer

The Company has applied to the EORTC (the European Organization for Research and Treatment of Cancer) to enter into human trials. It is anticipated that Phase I trials will commence in the next twelve months.

Glycopolymer Doxorubicin, AP-4010 - Access has developed a glycopolymer formulation of doxorubicin for the potential use in first line treatment of solid tumors in tumor types where increased amounts of standard doxorubicin without rate limiting toxicity would be clinically beneficial. Preliminary animal studies indicate:

* improved efficacy over standard doxorubicin at equal dosing levels
* enhanced tumor permeation as indicated by histological evidence
* reduced toxicity over standard doxorubicin

Due to resource limitations and the need to focus on a limited number of opportunities this project is currently on hold and subject to funding. It is not anticipated that this product will advance to clinical development until 1999 at the earliest.

Amlexanox Mucositis - Mucositis is often a significant complication of chemotherapy and can be severe enough to limit therapy. In addition to causing debilitating pain, which adversely affects the patients' ability to eat and speak, the mucositis may promote portals of entry for harmful microorganisms in patients whose immune systems can often be compromised. Any treatment that would accelerate their healing and/or diminish their rate of appearance would have a significant beneficial impact on the quality of life of these patients and may allow for more aggressive chemotherapy. Mucositis appears to have many clinical

similarities to oral aphthous ulcers and since amlexanox has been proven to accelerate their healing, the Company believes it could also have clinical benefit in chemotherapy-induced mucositis. Therefore, amlexanox is now in Phase I clinical studies for this indication with a newer, more suitable formulation. These studies are being conducted by our partner Block Drug Company.

Development Programs MRI Imaging Agents

Preoperative diagnostic imaging technologies are used to determine the existence and the extent of disease. The principal diagnostic imaging technologies are CT Scanning and Magnetic Resonance Imaging ("MRI"). Both methods produce images that show anatomic boundaries between the tissue suspected of being malignant and the surrounding tissue, to reveal potential disease. Neither method gives information allowing a clear distinction of malignant from nonmalignant tissue. A more recently developed technology, immunoscintigraphy, uses a gamma ray detection camera externally to identify internally localized radiolabeled antibodies potentially specific to certain cancers. Although immunoscintigraphy with certain radiolabeled antibodies appears capable of distinguishing malignant tumors from nonmalignant lesions and surrounding tissues, none of the external imaging technologies, including immunoscintigraphy, is effective in consistently identifying primary tumors smaller than one centimeter, in precisely locating the site or margins of the tumor, in consistently identifying all metastatic tumor nodules, or in distinguishing pre-invasive from functionally invasive tumor behaviors.

The currently available contrast agents for MRI are nonselective gadolinium based extracellular agents predominantly used in imaging the central nervous system.

Access is focused on expanding the utility of MRI imaging to include body imaging by developing a site-selective intravenous contrast agent with improved localization and performance outside as well as within the central nervous system. Access believes that improved site selectivity, longer site contrast with rapid blood clearance, the ability to clearly delineate tumor boundaries and metastases and the opportunity to obtain additional valuable information on prognosis, function, therapeutic response monitoring and anatomy at high resolution, could be major competitive advantages of the technology.

Access has formulated a site selective, MRI Contrast Agent for the detection, staging and monitoring of tumors. Access entered a collaboration with the Dow Chemical Company for the development of products incorporating Dow's chelation technology and Access' Bio~Responsive TM Polymers. The collaboration is focused on the development of MRI contrast agents and radiopharmaceutical diagnostic and therapeutics. The agreement provides Access with extensive chelation technology, chelation chemistry and assistance over a broad range of research and development activities. Dow Chemical is actively participating in the development of the product candidates.

Patents

Access believes that the value of technology both to Access and to potential corporate partners is established and enhanced by its broad intellectual

property positions. Consequently, Access already has issued and seeks to obtain additional U.S. and foreign patent protection for products under development and for new discoveries. Patent applications are filed with the U.S. Patent and Trademark Office and, when appropriate, with the Paris Convention's Patent Cooperation Treaty (PCT) Countries (most major countries in Western Europe and the Far East) for its inventions and prospective products.

A United States patent has issued and two European patents are pending for the use of zinc as a pharmaceutical vehicle for enhancing the penetration and retention of drug in the skin. The patent covers the method of inducing a reservoir effect in skin and mucous membranes to enhance penetration and retention of topically applied therapeutic and cosmetic pharmacologically active agents. The patent also relates to topical treatment methods including such reservoir effect enhancers and to pharmaceutical compositions containing them.

Access acquired the license to two provisional patent applications for polymer platinum compounds. These two provisional patent applications are the result of a collaboration between the Company and the School of Pharmacy, University of London, from whom the technology has been licensed. The patents include a number of synthetic polymers, including hydroxypropylmethacrylamide and polyamidoamines, that can be used to exploit enhanced permeability and retention and control drug release. The provisional patent application includes a pharmaceutical composition for use in tumor treatment comprising polymer-platinum compound through linkages which are designed to be cleaved under selected conditions to yield a platinum which accumulates at a tumor site. The patent applications also include methods for improving the pharmaceutical properties of platinum compounds.

Access has recently acquired one U.S. patent and three patent applications (two U.S. and one European) in condensed-phase microparticles. These patents are licensed from the Mayo Clinic and were acquired by Access through the merger with Tacora in December 1997. This technology is based on the Smart Polymer Matrices of Secretory Granules from secretory cells such as the mast cell or goblet cell. The technology has the following properties to control the storage and release of molecules within the body: 1) encapsulation of high concentration of small molecules, nucleotides and proteins; 2) highly stable storage medium for a variety of naturally occurring biological molecules; and 3) release of stored products in response to environments, external or internal signals to ensure correct location, timing and concentration of secreted products in the body.

Access holds U.S. and European patents with broad composition of matter claims encompassing glycosaminoglycan, acidic saccharide, carbohydrate and other endothelial binding and targeting carriers in combination with drugs and diagnostic agents formulated by both physical and chemical covalent means. Nine patents have issued commencing in 1990 (eight U.S. and one European) and an additional five patent applications are pending (two U.S. and three European).

These patents and applications relate to the in vivo medical uses of drugs and diagnostic carrier formulations which bind and cross endothelial and

epithelial barriers at sites of disease, including but not limited to treatment and medical imaging of tumor, infarct, infection and inflammation. They further disclose the body's induction of endothelial, epithelial, tissue and blood adhesins, selectins, integrins, chemotaxins and cytotaxins at sites of disease as a mechanism for selective targeting, and they claim recognized usable carrier substances which selectively bind to these induced target determinants.

Access has a strategy of maintaining an ongoing line of continuation applications for each major category of patentable carrier and delivery technology. By this approach, Access is extending the intellectual property protection of its basic targeting technology and initial agents to cover additional specific carriers and agents, some of which are anticipated to carry the priority dates of the original applications.

The intellectual property around which API was founded was originally licensed by way of a License Agreement from the inventor and principal shareholder Dr. David Ranney. A Patent Purchase Agreement dated April 5, 1994, (the "Patent Purchase Agreement") terminated the License Agreement and provided for assignment of the rights to the original patents to Access. The terms of the Patent Purchase Agreement were amended effective January 23, 1996 reducing the minimum royalty payments due to Dr. Ranney. Additional patents covering the technology were purchased from the University of Texas system on October 31, 1990 and applied for directly by Access. The technology was developed by Dr. Ranney during his tenure at the University of Texas Southwestern Medical School which retains a royalty free non-exclusive right to use the patent rights for its own research, teaching and other educationally-related purposes.

Dr. Ranney has signed an Assignment of Intellectual Property Agreement whereby all rights, title and interest in and to all subsequent inventions and confidential information will become the sole and exclusive property of Access at the earlier of the date of conception or development, or May 31, 1998.

Under the terms of the Patent Purchase Agreement as amended, Dr. Ranney has retained certain rights and interests in the intellectual property, including a non-exclusive right to use the inventions and technology covered by or relating to the patents for his own research, teaching or other academic related purposes, and for research and development of uses or implementations of the inventions and technology improvements. Access maintains the first right to negotiate the acquisition of any new inventions or technology improvements developed by Dr. Ranney relating to the technology. Beginning in 1994, Access has agreed to pay Dr. Ranney a royalty of three-quarters of one percent (0.75%) of Access' gross revenues derived from products covered by the patents and to pay certain minimum payments.

In addition, the Patent Purchase Agreement, as amended, establishes certain additional rights of Dr. Ranney. The patent assignment will terminate in the event Access fails to pay the amounts due to Dr. Ranney pursuant to the Agreement, files a petition in bankruptcy, fails to commercially develop the patents or creates a security interest in the patents without Dr. Ranney's approval. Also, in the event that parts of the Access technology are not being developed prior to January 2000, Dr. Ranney has the right of first

refusal to license or acquire at fair market value development rights to such parts of the Access technology.

Government Regulations

Access is subject to extensive regulation by the federal government, principally by the FDA, and, to a lesser extent, by other federal and state agencies as well as comparable agencies in foreign countries where registration of products will be pursued. Although a number of Access' formulations incorporate extensively tested drug substances, because the resulting formulations make claims of enhanced efficacy and/or improved side effect profiles they are expected to be classified as new drugs by the FDA.

The Federal Food, Drug and Cosmetic Act and other federal, state and foreign statutes and regulations govern the testing, manufacturing, safety, labeling, storage, shipping and record keeping of Access' products. The FDA has the authority to approve or not approve new drug applications and inspect research and manufacturing records and facilities.

Among the requirements for drug approval and testing is that the prospective manufacturer's facilities and methods conform to the FDA's Code of Good Manufacturing Practices ("GMP") regulations which establish the minimum requirements for methods to be used in, and the facilities or controls to be used during the production process and the facilities are subject to ongoing FDA inspection to insure compliance.

The steps required before a pharmaceutical product may be produced and marketed in the U.S. include preclinical tests, the filing of an IND with the FDA, which must become effective pursuant to FDA regulations before human clinical trials may commence, and the FDA approval of an NDA prior to commercial sale.

Preclinical tests are conducted in the laboratory, usually involving animals, to evaluate the safety and efficacy of the potential product. The results of preclinical tests are submitted as part of the IND application and are fully reviewed by the FDA prior to granting the sponsor permission to commence clinical trials in humans. Clinical trials typically involve a three-phase process. Phase I, the initial clinical evaluations, consists of administering the drug and testing for safety and tolerated dosages as well as preliminary evidence of efficacy in humans. Phase II involves a study to evaluate the effectiveness of the drug for a particular indication and to determine optimal dosage and dose interval

and to identify possible adverse side effects and risks in a larger patient group. When a product is found effective in Phase II, it is then evaluated in Phase III clinical trials. Phase III trials consist of expanded multi-location testing for efficacy and safety to evaluate the overall benefit or risk index of the investigational drug in relationship to the disease treated. The results of preclinical and human clinical testing are submitted to the FDA in the form of an NDA for approval to commence commercial sales.

The process of doing the requisite testing, data collection, analysis and compilation of an IND and an NDA is labor intensive and costly and may take a protracted time period. In some cases tests may have

to be redone or new tests instituted to comply with FDA requests. Review by the FDA may also take a considerable time period and there is no guarantee an NDA will be approved. Hence, Access cannot with any certainty estimate how long the approval cycle may take.

Access is also governed by other federal, state and local laws of general applicability, such as laws regulating working conditions, employment practices, as well as environmental protection.

Competition

The pharmaceutical and biotechnology industry is highly competitive. Most pharmaceutical and biotechnology companies have considerably greater research and development, financial, technical and marketing resources than Access. Although Access' proposed products utilize a novel drug delivery system, they will be competing with established pharmaceutical companies' existing and planned new product introductions and alternate delivery forms of the active substance being formulated by Access.

A number of companies are developing or may, in the future, engage in the development of products competitive with the Access delivery system. Currently, in the therapeutic area, liposomal formulations being developed by Nexstar, Inc., The Liposome Company, Inc. and Sequus Pharmaceuticals, Inc. are the major competitive intravenous drug delivery formulations which utilize similar drug substances. A number of companies are developing or evaluating enhanced drug delivery systems. Access expects that technological developments will occur at a rapid rate and that competition is likely to intensify as various alternative delivery system technologies achieve certain if not identical advantages.

The principal current competitors to Access' polymer targeting technology fall into two categories: monoclonal antibodies and liposomes. Access believes its technology potentially represents a significant advance over these older technologies because its technology provides a system with a favorable pharmacokinetic profile which has been shown to effectively bind and cross neovascular barriers and to penetrate the major classes of deep tissue and organ disease, which remain partially inaccessible to other technologies.

Even if Access' products are fully developed and receive required regulatory approval, of which there is no assurance, Access believes that its products can only compete successfully if marketed by a company having expertise and a strong presence in the therapeutic area. Consequently, Access does not currently plan to establish an internal marketing organization. By forming strategic alliances with major pharmaceutical and diagnostic medical imaging companies, management believes that Access' development risks should be minimized and the technology will potentially be more rapidly developed and successfully introduced into the marketplace.

Employees

As of January 1, 1998 Access has 18 full time employees, ten of whom have advanced scientific degrees. Access believes that it maintains good relations with its personnel. In addition, to complement its internal expertise,

Access contracts with scientific consultants, contract research organizations and university research laboratories that specialize in various aspects of drug development including toxicology, sterility testing and preclinical testing to complement its internal expertise.

Operations Prior to January 1996

Access operated as Chemex prior to the Merger, on January 25, 1996. On September 14, 1995, at a Special Meeting of Stockholders, the Chemex Stockholders approved the sale of its rights to amlexanox to Block, retaining the right to receive royalties from future sales of amlexanox. As a consideration for the sale of the Company's share of amlexanox, Block (a) made a nonrefundable up-front royalty payment of $2.5 million; (b) is obligated to pay

Access $1.5 million as a prepaid royalty at the end of the calendar month during which Block together with any sublicensee has achieved cumulative worldwide sales of amlexanox oral products of $25 million; and (c) after the payment of such $1.5 million royalty, is obligated to pay royalties to Access for all sales in excess of cumulative worldwide sales of amlexanox oral products of $45 million, as defined.

The Company announced on December 19, 1996 that Block has received approval from the U.S. Food and Drug Administration for amlexanox. Amlexanox is marketed under the name Apthasol TM.

Risk Factors

Certain of the statements contained in this Annual Report on Form 10-K are forward looking statements within the meaning of Section 27a of the Securities Act of 1933, as amended, that involves risks and uncertainties including but not limited to the risk factors set forth below:

History of Losses and Expectation of Future Losses; Uncertainty of Future Profitability The Company has incurred a cumulative operating loss of approximately $19.7 million through December 31, 1997. Losses have resulted principally from costs incurred in research and development activities related to the Company's efforts to develop target candidates and from the associated administrative costs. The Company expects to incur significant additional operating losses over the next several years and expects cumulative losses to increase substantially due to expanded research and development efforts, pre-clinical and clinical trials and development of manufacturing capabilities. In the next few years, the Company's revenues may be limited to any amounts received under research or drug development collaborations that the Company will establish. There can be no assurance, however, that the Company will be able to establish any collaborative relationships on terms acceptable to the Company. The Company's ability to achieve significant revenue or profitability is dependent on its ability to successfully complete the development of drug candidates, to develop and obtain patent protection and regulatory approvals for the drug candidates and to manufacture and commercialize the resulting drugs. The Company will not receive revenues or royalties from commercial sales for a significant number of years, if at all. Failure to receive significant revenues or achieve profitable operations would impair the Company's ability to sustain operations. There can be no assurance that the Company will ever

successfully identify, develop, commercialize, patent, manufacture and market any products, obtain required regulatory approvals or achieve profitability.

Research and Development Focus Access' focus is on commercializing proprietary biopharmaceutical patents. Although Access may in the future have some royalty income, it is still in the development stage, and its proposed operations are subject to all the risks inherent in the establishment of a new business enterprise, including the need for substantial capital. Access has recorded minimal revenue to date. It is anticipated that Access will remain principally engaged in research and development activities for an indeterminate, but substantial, period of time. As a non-revenue producing company, normal credit arrangements are unavailable to Access and, therefore, it is likely that Access would be forced to accept unfavorable terms if it should attempt to raise additional needed funds through borrowing. There can be no assurance that any such credit arrangements would be available. Further, it is anticipated that additional losses will be incurred in the future, and there can be no assurances that Access will ever achieve significant revenues.

Uncertainties Associated with Research and Development Activities Research and development activities, by their nature, preclude definitive statements as to the time required and costs involved in reaching certain objectives. Actual research and development costs, therefore, could exceed budgeted amounts and estimated time frames may require extension. Cost overruns due to unanticipated regulatory delays or demands, unexpected adverse side effects or insufficient therapeutic efficacy will prevent or substantially slow the research and development effort and ultimately could have a material adverse effect on Access.

Absence of Operating Revenue Royalties received by Access for sales of Actinex TM and Amlexanox TM have not been significant to date. There can be no assurance of revenue or profits in the future. Access currently has no products approved for sale and there can be no assurance as to the expenditures of time and resources that may be required to complete the development of potential Access products and obtain approval for sale or if such completion and approval can be realized.

Going Concern Uncertainty The Company's audited consolidated financial statements at and for the twelve months ended December 31, 1997 contain a reference to the Company's ability to meet its obligations as they occur and indicate that the Company may be unable to continue as a going concern.

Early Stage of Product Development; No Assurance of Successful Commercialization The Company's potential drug candidates will be subject to the risks of failure inherent in the development of pharmaceutical products based on new technologies. These risks include the possibilities that any or all of the Company's drug candidates will be found to be unsafe, ineffective or toxic or otherwise fail to meet applicable regulatory standards or receive necessary regulatory clearances; that these drug candidates, if safe and effective will be difficult to develop into commercially viable drugs or to manufacture on a large scale or will be uneconomical to market; that proprietary rights of third parties will preclude the Company from marketing such drugs; or that third

parties will market superior or equivalent drugs. The failure to develop safe, commercially viable drugs would have a material adverse effect on the Company's business, operating results and financial condition.

Additional Financing Requirements; Uncertainty of Available Funding. The Company will require substantial additional funds for its development programs, for operating expenses, for pursing regulatory clearances, and for prosecuting and defending its intellectual property rights before it can expect to realize significant revenues from commercial sales. The Company believes that existing capital resources, interest income and revenue from possible collaborative agreements, will be sufficient to fund its operating expenses and capital requirements as currently planned for two to six months. However, there can be no assurance that such funds will be sufficient to fund its operating expenses and capital requirements during such period. The Company's actual cash requirements may vary materially from those now planned and will depend upon numerous factors, including the results of the Company's research and development and collaboration programs, the timing and results of preclinical trials, the ability of the Company to maintain existing and establish new collaborative agreements with other companies to provide funding to the Company, the technological advances and activities of competitors and other factors. Thereafter, the Company will need to raise substantial additional capital to fund its operations. The Company intends to seek such additional funding through issuance of equity securities or collaborative or other arrangements with corporate partners. If additional funds are raised by issuing equity securities, further dilution to existing stockholders may result and future investors may be granted rights superior to those of existing stockholders. There can be no assurance, however, that any such equity offerings will occur, or that additional financing will be available from any of these sources or, if available, will be available on acceptable or affordable terms. If adequate funds are not available, the Company may be required to delay, reduce the scope of or eliminate one or more of its research and development programs or to obtain funds by entering into arrangements with collaborative partners or others that require the Company to issue additional equity securities or to relinquish rights to certain technologies or drug candidates that the Company would not otherwise issue or relinquish in order to continue independent operations.

Dependence on Others; Collaborations The Company's strategy for the research, development and commercialization of its potential pharmaceutical products may require the Company to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others, in addition to those already established, and may therefore be dependent upon the subsequent success of outside parties in performing their responsibilities. There can be no assurance that the Company will be able to establish additional collaborative arrangements or license agreements that the Company deems necessary or acceptable to develop and commercialize its potential pharmaceutical products, or that any of its collaborative arrangements or license agreements will be successful.

No Marketing, Sales, Clinical Testing or Regulatory Compliance Activities In view of the development stage of the Company and its research and development

programs, the Company has restricted hiring to research scientists and a small administrative staff and has made no investment in manufacturing, production, marketing, product sales or regulatory compliance resources. If the Company successfully develops any commercially marketable pharmaceutical products, it may seek to enter joint venture, sublicense or other marketing arrangements with parties that have an established marketing capability or it may choose to pursue the commercialization of such products on its own. There can be no assurance, however, that the Company will be able to enter into such marketing arrangements on acceptable terms, if at all. Further, the Company will need to hire additional personnel skilled in the clinical testing and regulatory compliance process and in marketing or product sales if it develops pharmaceutical products with commercial potential that it determines to commercialize itself. There can be no assurance, however, that it will be able to acquire such resources or personnel.

Manufacturing Limitations The Company intends to establish arrangements with contract manufacturers to supply sufficient quantities of products to conduct clinical trials as well as for the manufacture, packaging, labeling and distribution of finished pharmaceutical products if its potential products are approved for commercialization. If the Company is unable to contract for a sufficient supply of its potential pharmaceutical products on acceptable terms, the

Company's preclinical and human clinical testing schedule may be delayed, resulting in the delay of submission of products for regulatory approval and initiation of new development programs, which may have a material adverse effect on the Company. If the Company encounters delays or difficulties in establishing relationships with manufacturers to produce, package, label and distribute its finished pharmaceutical or other medical products (if any), market introduction and subsequent sales of such products would be adversely affected. Moreover, contract manufacturers that the Company may use must adhere to current Good Manufacturing Practices ("GMP") required by the FDA. Manufacturing facilities must pass a preapproval plant inspection before the FDA will issue a pre-market approval or product and establishment licenses, where applicable, for the products. If the Company is unable to obtain or retain third party manufacturing on commercially acceptable terms, it may not be able to commercialize its products as planned. The Company's potential dependence upon third parties for the manufacture of its products may adversely affect the Company's profit margins and its ability to develop and deliver such products on a timely and competitive basis. The Company has no experience in the manufacture of pharmaceutical products in clinical quantities or for commercial purposes. In addition, there can be no assurance that the Company will be able to manufacture or enter into arrangements with third parties for the manufacture of any products successfully and in a cost-effective manner.

Hazardous Materials; Environmental Matters The Company's research and development processes involve the controlled use of hazardous materials. The Company is subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although the Company believes that its safety procedures for storing, using, handling and

disposing of such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such accident, the Company could be held liable for any damages that result and any such liability could exceed the resources of the Company. Although the Company believes that it is in compliance in all material respects with applicable environmental laws and regulations and currently does not expect to make material capital expenditures for environmental control facilities in the near-term, there can be no assurance that the Company will not be required to incur significant costs to comply with environmental laws and regulations in the future, nor that the operations, business or assets of the Company will not be materially adversely affected by current or future environmental laws or regulations.

Impact of Extensive Government Regulation. The FDA and comparable agencies in foreign countries impose substantial requirements upon the introduction of pharmaceutical products through lengthy and detailed preclinical, laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures to establish their safety and efficacy. All of the Company's drug candidates will require governmental approvals for commercialization, none of which have been obtained. Preclinical and clinical trials and manufacturing of the Company's drug candidates will be subject to the rigorous testing and approval processes of the FDA and corresponding foreign regulatory authorities. Satisfaction of these requirements typically takes a significant number of years and can vary substantially based upon the type, complexity and novelty of the product. There can be no assurance as to when the Company, independently or with its collaborative partners, might first submit an Investigational New Drug Application ("IND") for FDA or other regulatory review. Government regulation also affects the manufacturing and marketing of pharmaceutical products.

The effect of government regulation may be to delay marketing of the Company's potential drugs for a considerable or indefinite period of time, impose costly procedural requirements upon the Company's activities and furnish a competitive advantage to larger companies or companies more experienced in regulatory affairs. Delays in obtaining governmental regulatory approval could adversely affect the Company's marketing as well as the Company's ability to generate significant revenues from commercial sales. There can be no assurance that FDA or other regulatory approvals for any drug candidates developed by the Company will be granted on a timely basis or at all. Moreover, if regulatory approval of a drug candidate is granted, such approval may impose limitations on the indicated use for which such drug may be marketed. Even if initial regulatory approvals for the Company's drug candidates are obtained, the Company, its drugs and its manufacturing facilities would be subject to continual review and periodic inspection, and later discovery of previously unknown problems with a drug, manufacturer or facility may result in restrictions on such drug or manufacturer, including withdrawal of the drug from the market. The regulatory standards are applied stringently by the FDA and other regulatory authorities and failure to comply can, among other things, result in fines, denial or withdrawal of regulatory approvals, product recalls or seizures, operating restrictions and

criminal prosecution.

The FDA has developed two "fast track" policies for certain new drugs (including anti-cancer agents), one policy for expedited development and review and one policy for accelerated approval. The expedited development and review policy applies to new drug therapies that are intended to treat persons with life-threatening and severely-

debilitating illnesses, especially where no satisfactory alternative therapy exists. The accelerated approval policy applies to certain new drugs that are intended to treat persons with serious or life-threatening illnesses that provide a meaningful therapeutic benefit to patients over existing treatments. See "Business-Government Regulation." There can be no assurance that any drug candidate contemplated by the Company will qualify for the FDA's various fast track or priority approval policies. Nor can there by any assurance that such policies will remain as currently implemented by the FDA.

Drug-related Risks Adverse side effects of treatment of diseases and disorders in both human and animal patients are business risks in the pharmaceutical industry. Adverse side effects can occur during the clinical testing of a new drug on humans or animals which may delay ultimate FDA approval or even cause a company to terminate its efforts to develop the drug for commercial use. Even after FDA approval of an NDA, adverse side effects may develop to a greater extent than anticipated during the clinical testing phase and could result in legal action against a company. Drug developers and manufacturers, including Access, may face substantial liability for damages in the event of adverse side effects or product defects identified with their products used in clinical tests or marketed to the public. There can be no assurance that Access will be able to satisfy any claims for which it may be held liable resulting from the use or misuse of products which it has developed, manufactured or sold.

Potential Product Liability and Availability of Insurance. The Company's business exposes it to potential liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. The use of the Company's drug candidates in clinical trials may expose the Company to product liability claims and possible adverse publicity. These risks will expand with respect to the Company's drug candidates, if any, that receive regulatory approval for commercial sale. Product liability insurance for the biotechnology industry is generally expensive, if available at all. The Company does not have product liability insurance but intends to obtain such coverage if and when its drug candidates are tested in clinical trials. However, such coverage is becoming increasingly expensive and there can be no assurance that the Company will be able to obtain insurance coverage at acceptable costs or in a sufficient amount, if at all, or that a product liability claim would not adversely affect the Company's business, operating results or financial condition.

Reimbursement and Drug Pricing Uncertainty. The successful commercialization of, and the interest of potential collaborative partners to invest in, the development of the Company's drug candidates will depend substantially on reimbursement of the costs of the resulting drugs and related treatments at acceptable levels from government authorities, private health insurers and other organizations, such as

health maintenance organizations ("HMOs"). There can be no assurance that reimbursement in the United States or elsewhere will be available for any drugs the Company may develop or, if available, will not be decreased in the future, or that reimbursement amounts will not reduce the demand for, or the price of, the Company's drugs, thereby adversely affecting the Company's business. If reimbursement is not available or is available only to limited levels, there can be no assurance that the Company will be able to obtain collaborative partners to manufacture and commercialize its drugs, or would be able to obtain a sufficient financial return on its own manufacture and commercialization of any future drugs.

Third-party payors are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed health care in the United States and the concurrent growth of organizations such as HMOs, which can control or significantly influence the purchase of health care services and products, as well as legislative proposals to reform health care or reduce government insurance programs, may result in lower prices of pharmaceutical products. The cost containment measures that health care providers are instituting, including practice protocols and guidelines and clinical pathways, and the effect of any health care reform, could materially adversely affect the Company's ability to sell any of its drugs if successfully developed and approved. Moreover, the Company is unable to predict what additional legislation or regulation, if any, relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect such legislation or regulation would have on the Company's business.

Uncertainty of Patents and Proprietary Rights. The Company's success will depend in part on its ability to obtain U.S. and foreign patent protection for its drug candidates and processes, preserve its trade secrets and operate without infringing the proprietary rights of third parties. Because of the length of time and expense associated with bringing new drug candidates through the development and regulatory approval process to the marketplace, the pharmaceutical industry has traditionally placed considerable importance on obtaining patent and trade secret protection for significant new technologies, products and processes. Although Access has fourteen U.S. patents and is either the owner or licensee of technology and there are six U.S. patent applications now pending, there can be no assurance that any additional patents will issue from any of the patent applications owned by, or licensed to, the Company. Further,

there can be no assurance that any rights the Company may have under issued patents will provide the Company with significant protection against competitive products or otherwise be commercially viable. Legal standards relating to the validity of patents covering pharmaceutical and biotechnological inventions and the scope of claims made under such patents are still developing. There is no consistent policy regarding the breadth of claims allowed in biotechnology patents. The patent position of a biotechnology firm is highly uncertain and involves complex legal and factual questions. There can be no assurance that any existing or future patents issued to, or licensed by, the Company will not subsequently be challenged, infringed upon, invalidated or circumvented by others. In addition, patents may have

been granted to third parties, or may be granted, covering products or processes that are necessary or useful to the development of the Company's drug candidates. If the Company's drug candidates or processes are found to infringe upon the patents or otherwise impermissibly utilize the intellectual property of others, the Company's development, manufacturer and sale of such drug candidates could be severely restricted or prohibited. In such event, the Company may be required to obtain licenses from third parties to utilize the patents or proprietary rights of others. There can be no assurance that the Company will be able to obtain such licenses on acceptable terms, or at all. There has been significant litigation regarding patents and other proprietary rights. If the Company becomes involved in litigation regarding its intellectual property rights or the intellectual property rights of others, the potential cost of such litigation (regardless of the strength of the Company's legal position) and the potential damages that the Company could be required to pay could be substantial.

In addition to patent protection, the Company relies on trade secrets, proprietary know-how and technological advances which it seeks to protect, in part, by confidentiality agreements with its collaborative partners, employees and consultants. There can be no assurance that these confidentiality agreements will not be breached, that the Company would have adequate remedies for any such breach, or that the Company's trade secrets, proprietary know-how and technological advances will not otherwise become known or be independently discovered by others.

Intense Competition. The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Competitors of the Company in the United States and elsewhere are numerous and include, among others, major, multinational pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions. Many of these competitors employ greater financial and other resources, including larger research and development staffs and more effective marketing and manufacturing organizations, than the Company or its collaborative partners. Acquisitions of competing companies and potential competitors by large pharmaceutical companies or others could enhance financial, marketing and other resources available to such competitors. As a result of academic and government institutions becoming increasingly aware of the commercial value of their research findings, such institutions are more likely to enter into exclusive licensing agreements with commercial enterprises, including competitors of the Company, to market commercial products. There can be no assurance that the Company's competitors will not succeed in developing technologies and drugs that are more effective or less costly than any which are being developed by the Company or which would render the Company's technology and future drugs obsolete and noncompetitive.

In addition, some of the Company's competitors have greater experience than the Company in conducting preclinical and clinical trials and obtaining FDA and other regulatory approvals. Accordingly, the Company's competitors may succeed in obtaining FDA or other regulatory approvals for drug candidates more rapidly than the Company. Companies that complete clinical trials, obtain required regulation agency

approvals and commence commercial sale of their drugs before their competitors may achieve a significant competitive advantage, including certain patent and FDA marketing exclusivity rights that would delay the Company's ability to market certain products. There can be no assurance that drugs resulting from the Company's research and development efforts, or from the joint efforts of the Company and its collaborative partners, will be able to compete successfully with competitors' existing products or products under development or that they will obtain regulatory approval in the United States or elsewhere.

Uncertainty Associated with Preclinical and Clinical Testing. Before obtaining regulatory approvals for the commercial sale of any of the Company's potential drugs, the drug candidates will be subject to extensive preclinical and clinical trials to demonstrate their safety and efficacy in humans. The Company is dependent on its collaborative partners to conduct clinical trials for its drug candidates. Furthermore, there can be no assurance that preclinical or clinical trials of any future drug candidates will demonstrate the safety and efficacy of such drug candidates at all or to the extent necessary to obtain regulatory approvals. Companies in the biotechnology industry have suffered significant setbacks in advanced clinical trials, even after demonstrating promising results in earlier trials. The failure to adequately demonstrate the safety and efficacy of a drug candidate under development could delay or prevent regulatory approval of the drug candidate and would have a material adverse effect on the Company's business, operating results and financial condition. See "Business-Government Regulation."

No Assurance of Market Acceptance. There can be no assurance that any drugs successfully developed by the Company, independently or with its collaborative partners, if approved for marketing, will achieve market acceptance. The drugs which the Company is attempting to develop will compete with a number of well-established drugs manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any drugs developed by the Company will depend on a number of factors, including the establishment and demonstration of the clinical efficacy and safety of the Company's drug candidates, their potential advantage over existing therapies and reimbursement policies of government and third-party payors. There is no assurance that physicians, patients or the medical community in general will accept and utilize any drugs that may be developed by the Company independently or with its collaborative partners.

Dependence on Key Personnel. The Company is highly dependent upon the efforts of its senior management and scientific team, including its President and Chief Executive Officer. The Company does not maintain key man life insurance for any of its key employees and does not intend to obtain such insurance. The loss of the services of one or more of these individuals might impede the achievement of the Company's development objectives. Because of the specialized scientific nature of the Company's business, the Company is highly dependent upon its ability to attract and retain qualified scientific and technical personnel. There is intense competition among major pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions for qualified personnel in the

areas of the Company's activities.

Concentration of Ownership Dr. David Ranney and Nicholas Madonia currently beneficially own approximately 24.4% and 17.1%, respectively, of the issued and outstanding Common Stock. Dr. Ranney subject to the terms of a certain Stockholder's Agreement between Dr. Ranney and the Company (the "Stockholder's Agreement") which provides that so long as he beneficially owns fifteen percent or more of the capital stock of Access, he will, subject to certain conditions and exceptions, vote all of his shares of the capital stock of Access as recommended by the Board of Directors of Access for any proposal presented to the Access Stockholders for approval. Nicholas Madonia does not have a Stockholders Agreement with the Company. In addition, each of Dr. Ranney and Mr. Madonia has agreed not to sell any shares of Common Stock of the Company for a period of twenty-four months. See "Security Ownership of Certain Beneficial Owners and Management" and "Certain Relationships and Related Transactions."

Possible Volatility of Stock Price Stock prices for many technology companies fluctuate widely for reasons which may be unrelated to operating performance or new product or service announcements. Broad market fluctuations, earnings and other announcements of other companies, general economic conditions or other matters unrelated to Access and outside its control also could affect the market price of the Common Stock. See "Per Share Prices of and Dividends on Common Stock."

Limited Market for Common Stock Trading in Access' securities is presently conducted in the over-the-counter market on the OTC Bulletin Board. As a result, an investor may find it difficult to dispose of, or to obtain accurate quotations as to the price of the Company's securities. In addition, the Company's securities are subject to a rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally with assets of $1,000,000, or annual income exceeding $200,000, or $300,000 together with their spouse). For transactions covered by this rule, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell the securities of the Company and may effect the ability of purchasers to sell their securities in the secondary market.

Effect of Recapitalization of the Company through a Proposed One-For-Twenty Reverse Stock Split and Decrease in the Number of Authorized Shares The Company will propose to its shareholders at its shareholders meeting, to be held on April 14, 1998, an amendment to its Certificate of Incorporation, as amended, to effect a recapitalization (the "Recapitalization") of the Company through a one-for-twenty reverse stock split of its Common Stock and decrease the number of authorized shares of Common Stock from 60.0 million shares, par value $.04 per share to 20.0 million shares, par value $.01 per share. The Recapitalization would in fact proportionately increase the number of authorized but unissued shares when compared with the number of issued and outstanding shares before the Recapitalization. This proposal, if approved, would decrease the number of outstanding shares of Common

Stock from approximately 37.4 million to 1.9 million. This proposal has not been approved as of the date of this report.

If the Company implements the Recapitalization, there can be no assurances that the market price of the

Company's Common Stock immediately after the implementation of the proposed Recapitalization will increase, and if it does increase, there can be no assurance that such increase can be maintained for any period of time, or that such market price will approximate twenty times the market price before the proposed reverse stock split. The Company currently does not meet the listing requirements for the NASDAQ SmallCap Market and there can be no assurances that the Company will be listed on the NASDAQ SmallCap Market or any exchange.

Effect of Certain Charter and By-Law Provisions; Possible Issuance of Preferred Stock Access' Certificate of Incorporation and Bylaws contain provisions that may discourage acquisition bids for Access. This could limit the price that certain investors might be willing to pay in the future for shares of Common Stock. In addition, shares of Access Preferred Stock may be issued in the future without further stockholder approval and upon such terms and conditions, and having such rights, privileges and preferences, as the Board of Directors may determine (including, for example, rights to convert into Common Stock). The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Access Preferred Stock that may be issued in the future. The issuance of Access Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from acquiring, a majority of the outstanding voting Common Stock of Access.

Market Impact of Future Sales of Common Stock Sales of substantial amounts of shares of Access Common Stock in the public market could adversely affect the market price of the Common Stock. As of the date of this report, all outstanding shares of Common Stock are unrestricted and freely tradable or tradable under Rule 144, however, shareholders holding approximately 17.6 shares of Common Stock have agreed not to sell such shares for a period up to twenty-four months. There also are outstanding options, warrants and rights to purchase up to approximately 8.5 million shares of the Common Stock. The sale of a substantial amount of these shares could have a material adverse effect on the future market price of the Common Stock.

Absence of Dividends. Access has not paid cash dividends on its Common Stock does not anticipate paying cash dividends on Common Stock in the foreseeable future. See "Share Prices of and Dividends on Common Stock.

NASD Requirements. The Company's shares were delisted from the NASDAQ Small Cap Market effective April 27, 1995 for failure to meet certain financial criteria. The Common Stock continues to be traded in the over-the-counter market and reported in the OTC Bulletin Board. As such, the Common Stock, when recommended by a broker-dealer, is subject to the limitations of rule 15g-9 under the Exchange Act, which Rule imposes

additional sales practices requirements on broker-dealers which sell the Common Stock (1) to persons other than (a) existing customers with a previous history of trading through such broker-dealer, (b) institutional accredited investors (for example, a bank or savings and loan association) and (c) a director and/or officer of the Company and/or the beneficial owner of 5% or more of the Common Shares or (2) in transactions not exempt by the Rule. For transactions under Rule 15g-9, the broker-dealer must obtain written information from the prospective purchaser as to his or her financial situation, investment experience and investment objectives and, based on such information, reasonably determine that transactions in the security are suitable for that person and that the prospective investor (or his or her independent adviser) has sufficient knowledge and experience in financial matters so as to be reasonably expected to be capable of evaluating the risks of transactions in such security. The broker-dealer must also receive the purchaser's written agreement to the transaction prior to the sale. Certain broker-dealers, particularly if they are market makers in the Common Stock, will have to comply with the disclosure requirements of Rule 15g-2, 15g-3, 15g-4, 15g-5 and 15g-6 under the Exchange Act. Consequently, Rule 15g-9 and these other Rules may adversely affect the ability of broker-dealers to sell the Common Stock.

Penny Stock Regulations; Illiquid Securities The regulations of the Securities and Exchange Commission ("Commission") promulgated under the Exchange Act require additional disclosure relating to the market for penny stocks in connection with trades in any stock defined as a penny stock. Commission regulations generally define a penny stock to be an equity that has a market price of less than $5.00 per share, subject to certain exceptions. Unless an exception is available, those regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). In addition, the broker-dealer must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. Moreover, broker-dealers who recommend such securities to persons other than established customers and

accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to transactions prior to sale. Regulations on penny stocks could limit the ability of broker-dealers to sell the Company's securities and thus the ability of purchasers of the Company's securities to sell their securities in the secondary market

ITEM 2. PROPERTIES

Access maintains one facility of approximately 9,100 square feet of administrative offices and laboratories in Dallas, Texas. Access has a lease agreement for the facility, which terminates in November 2002, however, the Company has an option for early termination. Adjacent space is available for expansion which the Company believes would accommodate growth for the

foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

Access is not a party to any legal proceedings.

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

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Price Range of Common Stock and Dividend Policy

Since February 1, 1996, the Company's Common Stock trades on the OTC Bulletin Board under the trading symbol AXCS. Prior to this date the Common Stock traded under the trading symbol CHMX. The following table sets forth, for the periods indicated, the high and low closing prices for the Common Stock as reported by the OTC Bulletin Board for the Company's past two fiscal years.

	Common Stock	
	High	Low
Fiscal Year Ended December 31, 1997		
First quarter	$1-9/32	$ 23/32
Second quarter	55/64	3/8
Third quarter	1/2	3/16
Fourth quarter	45/64	13/64
Fiscal Year Ended December 31, 1996		
First quarter	$2-11/16	$ 7/8
Second quarter	2-9/16	1-5/8
Third quarter	1-11/16	7/8
Fourth quarter	1-5/16	3/4

The Company has never declared or paid any cash dividends on its Preferred Stock or Common Stock and does not anticipate paying any cash dividends in the foreseeable future. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend on Access' earnings, its capital requirements and financial condition and other relevant facts. The Company currently intends to retain all future earnings, if any, to finance the development and growth of the Company's business.

The number of record holders of Access Common Stock at March 13, 1998 was approximately 5,000. Also on March 27, 1998, the closing sale price for the Common Stock as quoted on the OTC Bulletin Board was $0.28. There were 37,442,343 shares of common stock outstanding at March 27, 1998.

To date, no preferred shares have been issued.

Recent Sales of Unregistered Securities

On March 20, 1998, the Company, assisted by an investment bank, raised $725,000 in gross proceeds, less issuance costs of $47,250, from the placement of 29 Units. Each Unit consists of 166,667 shares of

Common Stock and warrants to purchase 166,667 shares of Common Stock at $0.15 per share. The funds will be used to fund the Company's activities until further funds are raised. The investment bank has been engaged to assist the Company in raising up to a total of $8,000,000 to fund the Company's research and development activities.

Effective December 31, 1997 the Company issued 200,000 shares of Common Stock to The Dow Chemical Company in connection with the License Agreement. The Company relied on Rule 506 and Section 4(2) of the Securities Act of 1933 as exemption from the registration thereunder.

Effective December 31, 1997 the Company issued 417,686 shares of Common Stock to creditors of Tacora Corporation in connection with the Merger Agreement between the Company and Tacora Corporation. The Company relied on Rule 506 and Section 4(2) of the Securities Act of 1933 as exemption from the registration thereunder.

ITEM 6.SELECTED FINANCIAL DATA (Thousands, Except for Net Loss Per Share) (1)

The following data, insofar as it relates to each of the years in the five year period ended December 31, 1997, has been derived from the audited financial statements of Access and notes thereto appearing elsewhere herein. The data should be read in conjunction with the Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10K.

<TABLE>
<CAPTION>

	For the Year Ended December 31,				
	1997	1996	1995	1994	1993
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:					
Total Revenues	$ 435	$167	$690	$1,039	$322
Operating Loss	(4,524)	(11,613)	(1,046)	(466)	(1,386)
Other Income	119	196	5	9	34
Interest Expense	36	45	58	19	-
Loss Before Income Taxes	(4,441)	(11,462)	(1,099)	(476)	(1,352)
Income taxes	-	-	-	-	32
Net Loss	(4,441)	(11,462)	(1,099)	(476)	(1,384)
Common Stock Data:					
Net Loss Per Basic and Diluted Common Share	$(.14)	$(.38)	$(.09)	$(.04)	$(.12)
Weighted Average Basic and Diluted Common Shares Outstanding	31,676	29,845	11,846	11,160	11,160

	December 31,				
	1997	1996	1995	1994	1993
Consolidated Balance Sheet Data:					
Total Assets	$1,447	$4,928	$424	$1,261	$1,079
Notes Payable	-	110	100	-	-
Total Liabilities	848	868	773	731	71
Stockholders' Equity (Deficit)	599	4,060	(349)	531	1,007

</TABLE>

(1) - Reflects Company data for 1997 and 1996 and API data for the years 1995, 1994 and 1993. Net Loss Per Basic and Diluted Common Share and Weighted Average Basic and Diluted Common Shares Outstanding are adjusted by the conversion factor 3.824251 used for the merger of

API with the Company.

On December 9, 1997, a wholly-owned subsidiary of the Company merged with Tacora Corporation ("Tacora"), a privately-held pharmaceutical company based in Seattle, Washington, whereby Tacora became a wholly-owned subsidiary of the Company. Operations have been included in the Company's consolidated financial statements since the date of acquisition. Pro forma disclosure relating to the Tacora acquisition is not presented as the impact is immaterial to the Company. The Company used the purchase method of accounting for the investment in Tacora. The aggregate purchase price was $733,000 payable in $124,000 in cash and $192,000 in stock. Additionally, the Company assumed $239,000 in trade and accrued payables and $184,000 of Tacora's capital lease obligations. Based upon the achievement of certain milestones enumerated in the merger agreement, the Company may be required to issue up to approximately 2,750,000 shares of common stock of the Company ("Common Stock") to the former stockholders of Tacora. Such shares of Common Stock are payable at an escalating value over the milestone period. The excess purchase price of the fair value of Tacora's net assets of $579,544 was recorded and written off in the fourth quarter of 1997 due to an impairment of the excess purchase price based on estimated future cash flows.

On January 25, 1996, the Company shareholders, at a Special Meeting, approved the merger with Access Pharmaceuticals, Inc. ("API"), a Texas corporation. Under the terms of the agreement, API was merged into the Company with Chemex as the surviving entity. Chemex also changed its name to Access Pharmaceuticals, Inc. and the operations of the consolidated company are now based in Dallas, Texas. Shareholders of both companies approved the merger.

As a result of the merger, and at time of the merger, the former API stockholders owned approximately 60% of the issued and outstanding shares of the Company. Generally accepted accounting principles require that a company whose stockholders retain the controlling interest in a combined business be treated as the acquiror for accounting purposes. As a consequence, the merger is being accounted for as a "reverse acquisition" for financial reporting purposes and API has been deemed to have acquired an approximate 60% interest in Chemex. Despite the financial reporting requirement to account for the acquisition as a "reverse acquisition", the Company remains the continuing legal entity and registrant for Securities and Exchange Commission reporting purposes.

Subsequent to the Merger of API into Access, the Company is now managed by the former management of API and the focus of the Company has changed to the development of enhanced delivery of parenteral therapeutic and diagnostic imaging agents and topical delivery systems through the utilization of its patented and proprietary technology.

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

Overview

In connection with the merger ("Merger") of Access Pharmaceuticals, Inc., a Texas corporation ("API"), with and into Chemex Pharmaceuticals, Inc. ("Chemex") on January 25, 1996, the name of Chemex was changed to Access Pharmaceuticals, Inc. ("Access" or the

"Company").

As a result of the merger and immediately after the merger, the former API Stockholders owned approximately 60% of the issued and outstanding shares of the Company. Generally accepted accounting principles require that a company whose stockholders retain the controlling interest in a combined business be treated as the acquiror for accounting purposes. As a consequence, the merger was accounted for as a "reverse acquisition" for financial reporting purposes and API was deemed to have acquired an approximate 60% interest in Chemex. Despite the financial reporting requirement to account for the acquisition as a "reverse acquisition," Chemex remains the continuing legal entity and registrant for Securities and Exchange Commission reporting purposes.

Subsequent to the Merger of API into Access, the Company has been managed by the former management of API and the focus of the Company has changed to a drug delivery company using advanced drug carrier technology for application in cancer treatment, dermatology and imaging. In addition, the Company has developed a drug to treat canker sores that was sold to Block Drug Company ("Block") and is currently being marketed in the United States by Block subject to a royalty agreement with the Company.

In August 1997, the Company entered into an agreement to enter into a collaboration with The Dow Chemical Company ("Dow Chemical") for the development of products incorporating Dow Chemical's chelation technology and Access' Bio~Responsive TM polymer systems. The collaboration focus is on the development of MRI contrast agents and

radiopharmaceutical diagnostics and therapeutics. The advancement of the Access developments in these areas are dependent on securing chelation technology, which encapsulates metals to avoid adverse effects on the body.

On December 9, 1997, a wholly-owned subsidiary of the Company merged with Tacora Corporation ("Tacora"), a privately-held pharmaceutical company based in Seattle, Washington, whereby Tacora became a wholly-owned subsidiary of the Company. Operations have been included in the Company's consolidated financial statements since the date of acquisition. Pro forma disclosure relating to the Tacora acquisition is not presented as the impact is immaterial to the Company. The Company used the purchase method of accounting for the investment in Tacora. The aggregate purchase price was $730,000 in $124,000 in cash and $192,000 in stock. Additionally, the Company assumed $239,000 in trade and accrued payables and $184,000 of Tacora's capital lease obligations. Based upon the achievement of certain milestones enumerated in the merger agreement, the Company may be required to issue up to approximately 2,750,000 shares of common stock of the Company ("Common Stock") to the former stockholders of Tacora. Such shares of Common Stock are payable at an escalating value over the milestone period. The excess purchase price of the fair value of Tacora's net assets of $579,544 was recorded and written off in the fourth quarter of 1997 due to an immediate of the excess purchase price based on estimated cash flows.

Since its inception, Access has devoted its resources primarily to fund its research and development programs. The Company has been unprofitable since inception and to date has not received any revenues

from the sale of products. No assurance can be given that the Company will be able to generate sufficient product revenues to attain profitability on a sustained basis if at all. The Company expects to incur losses for the next several years as it continues to invest in product research and development, preclinical studies, clinical trials and regulatory compliance. At December 31, 1997, the Company's accumulated deficit was approximately $19.7 million.

Recent Developments

On March 20, 1998, the Company, assisted by an investment bank raised $725,000 in gross proceeds, less issuance costs of $47,250, from the placement of 29 Units. Each unit consists of 166,667 shares Common Stock and warrants to purchase 166,667 shares of Common Stock at $0.15 per share. The funds will be used to fund the Company's activities until further funds are raised. The investment bank has been engaged to assist the Company in raising up to $8,000,000 to fund the Company's research and development activities.

On April 14, 1998 the Company will hold a special shareholders meeting of stockholders to consider a proposal to amend Access' Certificate of Incorporation, as amended, to effect a recapitalization of the Company through a one-for-twenty reverse stock split of Access common stock, $.04 par value per share (the "Common Stock"), decrease the number of authorized shares of Common Stock from 60.0 million to 20.0 million and decrease the authorized shares of preferred stock of the Company from 10.0 million to 2.0 million (the "Recapitalization"). This proposal will decrease the number of outstanding shares of Common Stock from approximately 37.4 million to 1.9 million.

In addition, if the proposal is approved by shareholders, the Company intends to submit an application for listing on NASDAQ or an alternate exchange if it meets all such listing qualifications. There can be no assurances that the market price of the Common Stock immediately after the implementation of the proposed reverse stock split will increase, and if it does increase, there can be no assurance that such increase can be maintained for any period of time, or that such market price will approximate twenty times the market price before the proposed reverse stock split. There can be no assurances that the Company will be listed on NASDAQ or an alternate exchange.

On February 26, 1998, the Company entered into a license agreement with Strakan Limited ("Strakan") relating to the Company's zinc technology. Strakan has agreed to fund the development costs of Zinc Clindamycin, for the treatment of acne, and any additional compounds developed utilizing the zinc patent, and will share equally all milestones payments received from the sublicensing of the compound. In addition, Access will receive a royalty on sales of products based on this technology.

Liquidity and Capital Resources

The Company's principal source of liquidity as of March 27, 1998, is $229,000 of cash and cash equivalents. Working deficit as of December 31, 1997

was $(216,000), a decrease of $4,160,000 as compared to the working capital as of December 31, 1996 of $3,944,000. The decrease in working capital was principally due to the

current year's operations and the assumption of liabilities from the Tacora acquisition.

Since its inception, the Company's expenses have significantly exceeded its revenues, resulting in an accumulated deficit of $19,748,000 at December 31, 1997. The Company has funded its operations primarily through private sales of its equity securities, contract research payments from corporate alliances and the merger with Chemex Pharmaceuticals, Inc.

The Company has incurred negative cash flows from operations since its inception, and has expended, and expects to continue to expend in the future, substantial funds to complete its planned product development efforts. The Company expects that its existing capital resources will be adequate to fund the Company's operations through the next two to six months. The Company is dependent on raising additional capital to fund its development of technology and to implement its business plan. Such dependence will continue at least until the Company begins marketing its new technologies.

If the anticipated revenues are delayed or do not occur or the Company is unsuccessful in raising additional capital on acceptable terms, the Company would be required to curtail research and development and general and administrative expenditures so that working capital would cover reduced operations into the third quarter of 1998. There can be no assurance, however, that changes in the Company's operating expenses will not result in the expenditure of such resources before such time.

The Company will require substantial funds to conduct research and development programs, preclinical studies and clinical trials of its potential products. The Company's future capital requirements and adequacy of available funds will depend on many factors including: the successful commercialization of amlexanox; the ability to establish and maintain collaborative arrangements for research, development and commercialization of products with corporate partners; continued scientific progress in the Company's research and development programs; the magnitude, scope and results of preclinical testing and clinical trials; the costs involved in filing, prosecuting and enforcing patent claims; competing technological developments; the cost of manufacturing and scale-up; and, the ability to establish and maintain effective commercialization activities and arrangements.

The Company intends to seek additional funding through research and development or licensing arrangements with potential corporate partners, public or private financing, or from other sources. The Company does not have any committed sources of additional financing and there can be no assurance that additional financing will be available on favorable terms, if at all. In the event that adequate funding is not available, the Company may be required to delay, reduce or eliminate one or more of its research or development programs or obtain funds through arrangements with corporate collaborators or others that may require the Company to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than the Company would otherwise

seek. Insufficient financing may also require the Company to relinquish rights to certain of its technologies that the Company would otherwise develop or commercialize itself. If adequate funds are not available, the Company's business, financial condition and results of operations will be materially and adversely effected.

The Company's business is subject to significant risks, including, without limitation, uncertainties associated with the length and expense of the regulatory approval process, uncertainty associated with obtaining and enforcing patents and risks associated with dependence on corporate partners. Although certain of the Company's products may appear promising at an early stage of development, they may not be successfully commercialized for a number of reasons, such as the possibility that the potential products will be determined to be ineffective during clinical trials, fail to receive necessary approvals, be precluded from commercialization by proprietary rights of third parties or competitive technology is more effective than product developed by the Company. Further, there can be no assurance that any collaborations will be initiated, continued or result in successfully commercialized products.

Year 2000 Issue

The Company has developed a plan to modify its information technology to be ready for the year 2000. The Company relies upon PC-based systems and does not expect to incur material costs to transition to Year 2000 compliant systems in its internal operations. The Company does not expect this project to have a significant effect on operations. The Company will continue to implement systems and all new investments are expected to be with Year 2000 compliant software.

Results of Operations

Comparison of Years Ended December 31, 1997 and 1996

Revenues for 1997 were $435,000 as compared to $167,000 in 1996, an increase of $158,000. Revenues for 1997 were comprised of $325,000 of licensing income from an ongoing agreement with an emerging pharmaceutical company. The agreement provides for royalty payments if a product is developed from the technology. There was also $110,000 of option income recorded in 1997. Revenues for 1996 were comprised of option income with a pharmaceutical company.

Total research and development spending for 1997 was $2,433,000 as compared to $1,405,000 for the same period in 1996, an increase of $1,028,000. The increase in research and development expenses was due to the following: external research expenditures- $683,000 primarily due to additional funding of Polymer Platinate at University of London and research at Duke University; salaries and related expenses- $158,000 due to hiring of additional scientists; equipment rental and maintenance costs- $82,000; travel and entertainment- $44,000 due to project management of external research; scientific consulting- $43,000 due to additional consulting and manpower for the ongoing projects; and other net increases totaling $83,000. The increase in research and development expenses is offset by lower moving expenses- $65,000 due to the relocation of scientists in 1996. If the Company is successful in raising additional capital, research spending is expected to increase in future quarters as the Company intends to hire additional

scientific management and staff and will accelerate activities to develop the Company's product candidates. If the Company is not successful in raising additional capital, research spending will be curtailed.

Total general and administrative expenses were $1,784,000 in 1997, a decrease of $154,000 as compared to the same period in 1996. The decrease in spending was due to the following decreases in: business consulting fees- $109,000 primarily due to the fair value of warrants issued in 1997 for consulting being less than the fair value of the warrants issued in 1996; patent expenses- $74,000 due to fewer initial patent filings in 1997 as compared to 1996; lower moving expenses- $44,000 due to the moving expenses associated with the hiring of a business development vice president in 1996; and other decreases of $27,000. The decreases are offset by higher salaries and related expenses- $111,000 due to a full twelve months of salaries in 1997 for all administrative employees as compared to a partial period in 1996. If the Company is not successful in raising additional capital, general and administrative spending will be curtailed.

Interest expense of $36,000 was $9,000 lower in 1997 versus 1996 due to the decrease of the outstanding balance of capital lease obligations. Interest expense will increase in 1998 due to the addition of capital leases from the Tacora acquisition.

Depreciation and amortization increased to $162,000 in 1997 from $123,000 in 1996, an increase of $39,000. The increase is due to the amortization of $25,000 of licenses and one month of depreciation and amortization of the Tacora assets.

Excess purchase price over the fair value of Tacora's net assets of $580,000 was recorded and written off in the fourth quarter of 1997. In 1996, excess purchase price over the fair value of Chemex's net assets of $8,314,000 was recorded and written off due to an immediate impairment of the excess purchase price.

Total expenses were $4,849,000, including $580,000 of excess purchase price written off for the Tacora purchase, which resulted in a loss for the twelve months of $4,441,000, or $.14 per share.

Comparison of Years Ended December 31, 1996 and 1995

Revenues for 1996 were $167,000 as compared to $690,000 in 1995, a decrease of $523,000. The decrease in revenues for 1996 as compared to the comparable 1995 period was principally due to option payments recorded as income related to a third-party evaluation of certain of the Company's technology. The company performing the evaluation elected not to extend the option period beyond March 29, 1996. An additional $110,000 in option payments was recorded as unearned revenue. Revenues for 1995 were comprised of sponsored research and development revenues.

Total research spending for 1996 was $1,405,000 as compared to $728,000 for the same period in 1995, an increase of $677,000. The increase in expenses was due to the following: increased salaries and related expenses- $353,000; increased external research expenditures- $133,000; increased equipment rental costs- $88,000; increased scientific consulting- $72,000; and other increases of $31,000.

Total general and administrative expenses were $1,938,000 in 1996, an increase of $1,297,000 as compared to the same period in 1995. The increase in spending was due to the following increases in: business consulting fees- $344,000; professional expenses due to the Merger and legal costs of being a public company- $301,000; salaries and related expenses- $184,000; general business consulting fees and expenses- $146,000; patent expenses- $142,000; director fees and director and officer insurance- $134,000; and other increases of $46,000.

Interest expense was $13,000 lower in 1996 versus 1995 due to the decrease of the outstanding balance of capital lease obligations.

Depreciation and amortization decreased to $123,000 in 1996 from $367,000 in 1995, a decrease of $244,000. The decrease is due to the write off of $246,000 capitalized patent and application costs in 1995.

Excess purchase price over the fair value of Chemex's net assets of $8,314,000 was recorded and written off in the first quarter of 1996 due to an immediate impairment of the excess purchase price.

Total expenses were $11,780,000, including $8,314,000 of excess purchase price written off, which resulted in a loss for the twelve months of $11,462,000, or $.38 per share.

New Accounting Standard

In June 1997, the Financial Accounting Standards Board issued two new Statements of Financial Accounting Standards ("SFAS") which are effective for financial statements for periods beginning after December 15, 1997 and which will apply to tghe Company beginning with its fiscal year ending December 31, 1998. Management of the Company does not expect that the adoption of either pronouncement will have a material impact on the Company's financial position, results of operations, or liquidity.

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income includes net income and is defined as the change in net assets of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those from investments by owners and distributions to owners. Examples of comprehensive income, other than net income, include unrealized gains and losses on certain investments in debt and equity securities and foreign currency items.

SFAS No. 131. "Disclosure About Segments of an Enterprise and Related Information," establishes standards for the way that public enterprises report information about operating segments in annual financial statements. It also requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders.

ITEM 8. FINANCIAL AND SUPPLEMENTARY DATA

The response to this Item is submitted as a separate section of this report.

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The information requested by this item will be contained in the Company's definitive Proxy Statement ("Proxy Statement") for its 1998 Annual Meeting of Stockholders to be held on June 12, 1998 and is incorporated by reference. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 1997.

ITEM 11. EXECUTIVE COMPENSATION

The information requested by this item will be contained in the Company's definitive Proxy Statement and is incorporated by reference. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information requested by this item will be contained in the Company's definitive Proxy Statement and is incorporated by reference. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information requested by this item will be contained in the Company's definitive Proxy Statement and is

incorporated by reference. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 1997.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. Financial Statements and Exhibits Page

1. Financial Statements. The following financial statements are submitted as part of this report:

2. Financial Statement Schedule.

No financial statement schedules are included because they are not required or the information is included in the financial statements or notes thereto.

3. Exhibits.

4. Exhibit Number

2.1 Amended and Restated Agreement of Merger and Plan of Reorganization between Access Pharmaceuticals, Inc. and Chemex Pharmaceuticals, Inc., dated as of October 31, 1995 (Incorporated by reference to Exhibit A of the Company's Registration Statement on Form S-4 dated December 21, 1995, Commission File No. 33-64031)

3.0 Articles of incorporation and bylaws:

3.1 Certificate of Incorporation (Incorporated by Reference to Exhibit 3(a) of the Company's Form 8-B dated July 12, 1989, Commission File Number 9-9134)

3.2 Bylaws (Incorporated by referenced to Exhibit 3(b) of the Company's Form 8-B dated July 12, 1989, Commission File Number 0-9314)

3.3 Certificate of Amendment of Certificate of Incorporation filed August 21, 1992

3.4 Certificate of Merger filed January 25, 1996. (Incorporated by reference to Exhibit E of the Company's Registration Statement on Form S-4 dated December 21, 1995, Commission File No. 33-64031)

3.5 Certificate of Amendment of Certificate of Incorporation filed January 25, 1996. (Incorporated by reference to Exhibit E of the Company's Registration Statement on Form S-4 dated December 21, 1995, Commission File No. 33-64031)

3.6 Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q for the quarter ended June 30, 1996)

3.7 Certificate of Amendment of Certificate of Incorporation filed July 18, 1996

10.0 Material contracts:

10.1 Irrevocable Assignment of Proprietary Information with Dr. Charles G. Smith (Incorporated by reference to Exhibit 10.6 of the Company's Form 10-K for the year ended December 31, 1991)

10.2 Conversion Agreement with Sentinel Charitable Remainder Trust dated June 18, 1990 (Incorporated by reference to Exhibit 10 of the Company's Form 10-K for the year ended December 31, 1990)

10.3 Asset Purchase and Royalty Agreement between Block Drug Company, Inc. and the Company dated June 7, 1995 (Incorporated by reference to Exhibit 10.28 of the Company's Form 10-Q for the quarter ended June 30, 1995)

*10.4 1995 Stock Option Plan (Incorporated by reference to Exhibit F of the Company's Registration Statement on Form S-4 dated December 21, 1995, Commission File No. 33-64031)

10.5 Stockholder's Agreement dated October 1995 between Access Pharmaceuticals, Inc. and Dr. David F. Ranney (Incorporated by reference to Exhibit A of the Company's Registration Statement on Form S-4 dated December 21, 1995, Commission File No. 33-64031).

10.6 Patent Purchase Agreement dated April 5, 1994 between David F. Ranney and Access Pharmaceuticals, Inc. (Incorporated by reference to Exhibit 10.16 of the Company's Form 10-K for the year ended December 31, 1995)

10.7 First Amendment to Patent Purchase Agreement dated January 23, 1996 between David F. Ranney and Access Pharmaceuticals, Inc. (Incorporated by reference to Exhibit 10.17 of the Company's Form 10-K for the year ended December 31, 1995)

10.8 Lease Agreement between Pollock Realty Corporation and the Company dated July 25, 1996 (Incorporated by reference to Exhibit 10.19 of the Company's Form 10-Q for the quarter ended September 30, 1996)

10.9 Platinate HPMA Copolymer Royalty Agreement between The School of Pharmacy, University of London and the Company dated November 19, 1996

10.10 License Agreement between The Dow Chemical Company and the Company dated June 30, 1997.

(Incorporated by reference to Exhibit 10.12 of the Company's Form 10-Q for the quarter ended September 30, 1997)

10.11 Agreement of Merger and Plan of Reorganization, dated May 23, 1997 among the Company, Access Holdings, Inc and Tacora Corporation

21. Subsidiaries of the registrant

23.0 Consent of Experts and Counsel

23.1 Consent of KPMG Peat Marwick LLP

23.2 Consent of Smith, Anglin & Co.

27.1 Financial Data Schedule

* Management contract or compensatory plan required to be filed as an Exhibit to this Form pursuant to Item 14(c) of the report

b. Reports on Form 8-K.

There were no reports on Form 8-K during the fourth quarter of 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACCESS PHARMACEUTICALS, INC.

Date March 30, 1998 By: /s/ Kerry P. Gray

Kerry P. Gray
President and Chief Executive Officer, Treasurer

Date March 30, 1998 By: /s/ Stephen B. Thompson

Stephen B. Thompson
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Date March 30, 1998 By:/s/ Kerry P. Gray

Kerry P. Gray
President and Chief Executive Officer, Treasurer, Director

Date March 30, 1998 By:/s/ J. Michael Flinn

J. Michael Flinn, Director

Date March 30, 1998 By:/s/ Stephen B. Howell

Stephen B. Howell, Director

Date March 30, 1998 By:/s/ Max Link

Max Link, Director

Date March 30, 1998 By:/s/ Herbert H. McDade, Jr.

Herbert H. McDade, Jr., Director

Independent Auditors' Report

The Board of Directors and Stockholders
Access Pharmaceuticals, Inc.:

We have audited the accompanying consolidated balance sheets of Access Pharmaceuticals, Inc. and subsidiary (a development stage company) as of December 31, 1997

and 1996, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1997 and for the period February 24, 1988 (inception) to December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The cumulative statements of operations, stockholders' equity (deficit), and cash flows for the period February 24, 1988 (inception) to December 31, 1997 include amounts for the period from February 24, 1988 (inception) to December 31, 1988 and for each of the years in the six-year period ending December 31, 1994, which were audited by other auditors whose report has been furnished to us and is included herein, and our opinion, insofar as it relates to the amounts included for the period February 24, 1988 (inception) through December 31, 1994, is based solely on the report of the other auditors.

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, based on our audits and report of the other auditors included herein, the consolidated financial statements for the three-year period ended December 31, 1997 referred to above present fairly, in all material respects the financial position of Access Pharmaceuticals, Inc. and subsidiary (a development stage company) as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997 and for the period February 24, 1988 (inception) to December 31, 1997, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 11 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plan's in regard to these matters are also described in note 11. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Dallas, Texas
March 24, 1998

Independent Auditors' Report

The Board of Directors and Stockholders

of Access Pharmaceuticals, Inc.:

We have audited the accompanying statements of operations, stockholders' equity and cash flows of Access Pharmaceuticals, Inc. (a development stage company) for the period February 24, 1988 (inception) through December 31, 1994. 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 period February 24, 1988 (inception) through December 31, 1994, in conformity with generally accepted accounting principles.

/s/ Smith, Anglin & Co.

Smith, Anglin & Co.

Dallas, Texas
September 21, 1995

ACCESS PHARMACEUTICALS, INC. AND SUBSIDIARY
a development stage company

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31, 1997	1996
<S>	<C>	<C>
Assets		
Current Assets		
Cash and cash equivalents	$ 438,000	$4,428,000
Accounts receivable	1,000	1,000
Prepaid expenses and other current assets	51,000	190,000
Total Current Assets	490,000	4,619,000
Property and equipment, net (note 5)	422,000	300,000
Licenses, net (note 1)	475,000	-
Other assets	60,000	9,000
Total Assets	$1,447,000	$4,928,000
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	$ 434,000	$ 399,000
Royalties payable (note 10)	53,000	50,000
Accrued insurance premium	38,000	74,000
Current portion of obligations under capital leases (note 6)	181,000	152,000
Total Current Liabilities	706,000	675,000

Obligations under capital leases, net of current portion (note 6)	142,000	83,000
Unearned revenue (note 3)	-	110,000
Total Liabilities	848,000	868,000
Commitments and Contingencies (notes 6, 10 & 11)		
Stockholders' Equity (note 7)		
Preferred stock, at December 31, 1997 and 1996, $.01 par value, Authorized 10,000,000 shares, none issued or outstanding	-	-
Common stock, $.04 par value, authorized 60,000,000 shares, 32,609,010 and 31,391,324 issued and outstanding at December 31, 1997 and 1996, respectively	1,304,000	1,256,000
Additional paid-in capital	19,043,000	18,111,000
Deficit accumulated during the development stage	(19,748,000)	(15,307,000)
Total Stockholders' Equity	599,000	4,060,000
Total Liabilities and Stockholders' Equity	$1,447,000	$4,928,000

</TABLE>

See Accompanying Notes to Consolidated Financial Statements

ACCESS PHARMACEUTICALS, INC. AND SUBSIDIARY
a development stage company

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Years Ended December 31,			(Inception) to
	1997	1996	1995	December 31, 1997
<S>	<C>	<C>	<C>	
Revenues (note 3)				
Research and development	$ -	$ -	$ 690,000	$2,711,000
Option income	110,000	167,000	-	2,149,000
Licensing revenues	325,000	-	-	325,000
Total Revenues	435,000	167,000	690,000	5,185,000
Expenses				
Research and development	2,433,000	1,405,000	728,000	8,609,000
General and administrative	1,784,000	1,938,000	641,000	6,863,000
Depreciation and amortization	162,000	123,000	367,000	1,056,000
Write-off of excess purchase price	580,000	8,314,000	-	8,894,000
Total Expenses	4,959,000	11,780,000	1,736,000	25,422,000
Loss From Operations	(4,524,000)	(11,613,000)	(1,046,000)	(20,237,000)
Other Income (Expense)				
Interest and miscellaneous income	119,000	196,000	5,000	774,000
Interest expense	(36,000)	(45,000)	(58,000)	(158,000)
	83,000	151,000	(53,000)	616,000
Loss Before Income Taxes	(4,441,000)	(11,462,000)	(1,099,000)	(19,621,000)
Provision for Income Taxes	-	-	-	127,000
Net Loss	$(4,441,000)	$(11,462,000)	$(1,099,000)	$(19,748,000)
Basic and Diluted Loss Per Common Share	$(0.14)	$(0.38)	$(0.09)	
Weighted Average Basic and Diluted Common Shares Outstanding	31,675,708	29,845,560	11,846,329	

</TABLE>

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See Accompanying Notes to Consolidated Financial Statements

ACCESS PHARMACEUTICALS, INC. AND SUBSIDIARY
a development stage company

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

<TABLE>
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	Common Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage
	Shares	Amount		
<S>	<C>	<C>	<C>	<C>
Balance, February 24, 1988	-	$ -	$ -	$ -
Common stock issued, $0.33 per share	294,000	3,000	94,000	-
Common stock issued, $0.08 per share	153,000	3,000	9,000	-
Net loss for the period February 24, 1988 to December 31, 1988	-	-	-	(30,000)
Balance, December 31, 1988	447,000	6,000	103,000	(30,000)
Common stock issued, $0.33 per share	87,000	-	29,000	-
Common stock issued, $1.65 per share	75,000	-	124,000	-
Common stock issued, $0.01 per share	1,950,000	20,000	(11,000)	-
Net loss for the year	-	-	-	(191,000)
Balance, December 31, 1989	2,559,000	26,000	245,000	(221,000)
Common stock issued, $3.00 per share	73,000	-	218,000	-
Common stock issued, $7.82 per share	284,000	3,000	2,222,000	-
Net loss for the year	-	-	-	(219,000)
Balance, December 31, 1990	2,916,000	29,000	2,685,000	(440,000)
Common stock issued, $3.00 per share	2,000	-	6,000	-
Contribution of equipment by shareholder	-	-	468,000	-
Net income for the year	-	-	-	413,000
Balance, December 31, 1991	2,918,000	29,000	3,159,000	(27,000)
Contribution of equipment by shareholder	-	-	89,000	-
Net loss for the year	-	-	-	(859,000)
Balance, December 31, 1992	2,918,000	29,000	3,248,000	(886,000)
Net loss for the year	-	-	-	(1,384,000)
Balance, December 31, 1993	2,918,000	29,000	3,248,000	(2,270,000)
Net loss for the year	-	-	-	(476,000)
Balance, December 31, 1994	2,918,000	29,000	3,248,000	(2,746,000)
Common stock issued, $2.00 per share	25,000	-	50,000	-
Exercise of stock options between $0.25 and $1.25 per share	623,000	6,000	163,000	-
Common stock grants	74,000	1,000	(1,000)	-
Net loss for the year	-	-	-	(1,099,000)
Balance, December 31, 1995	3,640,000	36,000	3,460,000	(3,845,000)
Merger	19,018,000	871,000	9,130,000	-
Common stock issued, $.70 share	8,571,000	343,000	5,160,000	-
Exercise of stock options/SAR's between $0.00 and $0.88 per share	162,000	6,000	17,000	-
Warrants issued at $1.00 per share for consulting services	-	-	344,000	-
Net loss for the year	-	-	-	(11,462,000)

Balance, December 31, 1996	31,391,000	1,256,000	18,111,000	(15,307,000)
Common stock issued, $0.75 share	800,000	32,000	568,000	-
Common stock issued, $0.46 share	418,000	16,000	176,000	-
Warrants issued at $0.60 and $0.90 per share for financial consulting services	-	-	188,000	-
Net loss for the year	-	-	-	(4,441,000)
Balance, December 31, 1997	32,609,000	$1,304,000	$19,043,000	$(19,748,000)

</TABLE>

See Accompanying Notes to Consolidated Financial Statements

ACCESS PHARMACEUTICALS, INC. AND SUBSIDIARY
a development stage company

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended December 31,			February 24, 1988 (Inception) to
	1997	1996	1995	December 31, 1997
<S>	<C>	<C>	<C>	<C>
Cash Flows From Operating Activities:				
Net Loss	$(4,441,000)	$(11,462,000)	$(1,099,000)	$(19,748,000)
Adjustments to reconcile net loss to net cash used in operating activities:				
Write off of excess purchase price	580,000	8,314,000	-	8,894,000
Consulting expense related to warrants granted	188,000	344,000	-	532,000
Research expenses related to common stock granted	100,000	-	-	100,000
Depreciation and amortization	162,000	123,000	367,000	1,056,000
Unearned revenue	(110,000)	-	-	(110,000)
Change in operating assets and liabilities:				
Accounts receivable	(1,000)	2,000	(3,000)	(2,000)
Prepaid expenses and other current assets	139,000	(186,000)	16,000	(52,000)
Other assets	(1,000)	(7,000)	1,000	(8,000)
Accounts payable and accrued expenses	(244,000)	354,000	43,000	232,000
Net Cash Used In Operating Activities	(3,628,000)	(2,668,000)	(705,000)	(9,106,000)
Cash Flows From Investing Activities:				
Capital expenditures	(16,000)	(38,000)	-	(1,164,000)
Sales of capital equipment	6,000	-	-	6,000
Purchase of Tacora, net of cash acquired	(124,000)	-	-	(124,000)
Other investing activities	(50,000)	-	-	(50,000)
Net Cash Used In Investing Activities	(184,000)	(38,000)	-	(1,332,000)
Cash Flows From Financing Activities				
Proceeds from notes payable	-	118,000	100,000	721,000
Payments of principal on obligations under capital leases	(178,000)	(127,000)	(117,000)	(454,000)
Cash acquired in merger with Chemex	-	1,587,000	-	1,587,000
Proceeds from stock issuances	-	5,526,000	219,000	9,022,000
Net Cash (Used In) Provided by Financing Activities	(178,000)	7,104,000	202,000	10,876,000
Net Increase (Decrease) in Cash and Cash Equivalents	(3,990,000)	4,398,000	(503,000)	438,000
Cash and Cash Equivalents At Beginning of Period	4,428,000	30,000	533,000	-
Cash and Cash Equivalents at End of Period	$438,000	$4,428,000	$ 30,000	$438,000

Cash Paid for Interest	$34,000	$45,000	$58,000	$155,000
Cash Paid for Income Taxes	-	-	-	127,000
Supplemental disclosure of noncash transactions				
Payable accrued for fixed asset purchase	$-	$-	$47,000	$47,000
Elimination of note payable to				
Chemex Pharmaceuticals due to merger	-	100,000	-	100,000
Stock issued for License on patents	500,000	-	-	500,000
Equipment purchases financed through				
capital leases	82,000	-	-	82,000
Net liabilities assumed in acquisition				
of Tacora Corporation (note 1)	455,000	-	-	455,000

</TABLE>
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See Accompanying Notes to Consolidated Financial Statements

ACCESS PHARMACEUTICALS, INC. AND SUBSIDARY
(a development stage company)
Notes to Consolidated Financial Statements
Three Years Ended December 31, 1997

(1) Summary of Significant Accounting Policies:

(a) Business

Access Pharmaceuticals, Inc. ("Access" or the "Company") is a site-directed targeting company using bioresponsive drug carriers to target and control the release of therapeutic agents into sites of disease activity and clear the non-targeted drug-fraction. The Company operates in a single industry segment.

On December 9, 1997, a wholly-owned subsidiary of the Company merged with Tacora Corporation ("Tacora"), a privately-held pharmaceutical company based in Seattle, Washington, whereby Tacora became a wholly-owned subsidiary of the Company. The Company used the purchase method of accounting for the investment in Tacora. The aggregate purchase price was $739,000 payable $124,000 in cash, $192,000 in stock representing 418,000 shares of Company common stock and assumption of $239,000 in trade and accrued payables and $184,000 of Tacora's capital lease obligations. Based upon the achievement of certain milestones enumerated in the merger agreement, the Company may be required to issue up to approximately 2,750,000 shares of common stock of the Company ("Common Stock") to the former stockholders of Tacora. Such shares of Common Stock are payable at an escalating value over the milestone period. The aggregate purchase price has been allocated to the net assets acquired based on management's estimated of the fair value of assets acquired and liabilities assumed. The excess purchase price over the fair value of Tacora's net identifiable assets of $579,544 was recorded and written off in the fourth quarter of 1997 due to an impairment of the excess purchase price based on estimated future cash flows.

Access, formerly known as Chemex Pharmaceuticals, Inc. ("Chemex"), merged with Access Pharmaceuticals, Inc., a Texas corporation ("API") on January 25, 1996. Shareholders of both companies approved the merger. Under the terms of the merger agreement, API was merged into Chemex with Chemex as the surviving legal entity. Chemex acquired all of the outstanding shares of API in exchange for 13,919,979 shares of registered common stock of Chemex, a conversion factor of 3.824251 Chemex shares for each API share. The fair value of Chemex was $10.0 million. The excess of purchase price over the net assets acquired of $8,313,516 was recorded and written off during the

first quarter of 1996 due to an immediate impairment of the excess purchase price. Chemex also changed its name to Access Pharmaceuticals, Inc. and the operations of the merged company are now based in Dallas, Texas.

As a result of the merger and immediately after the merger, the former API Stockholders owned approximately 60% of the issued and outstanding shares of Chemex. Generally accepted accounting principles require that a company whose stockholders retain the controlling interest in a combined business be treated as the acquiror for accounting purposes. As a consequence, the merger was accounted for as a "reverse acquisition" for financial reporting purposes and API was deemed to have acquired an approximate 60% interest in Chemex. Despite the financial reporting requirement to account for the acquisition as a "reverse acquisition," Chemex remains the continuing legal entity and registrant for Securities and Exchange Commission reporting purposes.

In March 1996 the Company concluded a $6.0 million private placement of 8.571 million shares of common stock.

The Company's products will require clinical trials, U.S. Food and Drug Administration ("FDA") approval, or approval of similar authorities internationally and acceptance in the marketplace prior to commercialization. Although the Company believes its patents and patent applications are valid, the invalidation of its major patents would have a material adverse effect upon its business. The Company competes with specialized biotechnology companies and major pharmaceutical companies. Many of these competitors have substantially greater resources than the Company.

The Company is in the development stage and its efforts have been principally devoted to research and development resulting in significant losses since inception on February 24, 1988.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of Access Pharmaceuticals, Inc. and Tacora Corporation, a wholly-owned subsidiary. All significant intercompany balances have been eliminated in consolidation.

(c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents for purposes of the statements of cash flows. Cash and cash equivalents consist primarily of cash in banks and money market funds.

(d) Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over estimated useful lives ranging from three to seven years. Assets acquired pursuant to capital lease arrangements are amortized over the shorter of the estimated useful lives or the lease terms.

(e) Patents and Applications

In the fourth quarter of 1995, the Company changed from deferring and amortizing patent and application

costs to recording them as expenses as incurred because, even though the Company believes the patents and underlying processes have continuing value, the amount of future benefits to be derived therefrom are uncertain. Accordingly, the new accounting method has been adopted in recognition of a possible change in estimated future benefits. Since the effect of this change in accounting principle is inseparable from the effect of the change in accounting estimate, such change has been accounted for as a change in estimate in accordance with Opinion No. 20 of the Accounting Principles Board. Future patent and application costs are expected to be expensed since the benefits to be derived therefrom are likely to be uncertain. As a result of the change, the Company wrote down capitalized patent and application costs by approximately $246,000 which amounts were included in depreciation and amortization expense in the accompanying Statement of Operations for 1995.

(f) Licenses

The Company recognizes the purchase value of licenses and amortizes them over the estimated useful lives. The Company acquired a license to certain patents for $500,000 by issuing 700,000 shares of Common Stock in 1997. The License is amortized over ten years. Amortization was $25,000 for the year ended December 31, 1997.

(g) Revenue Recognition

Sponsored research and development revenues are recognized as research and development activities are performed under the terms of research contracts. Advance payments received are recorded as unearned revenue until the related research activities are performed. Option revenues are recognized when the earnings process is completed pursuant to the terms of the respective contract.

(h) Research and Development Expenses

Research and development costs are expensed as incurred.

(i) Income Taxes

Tax credits related to research and development and to investments in equipment and improvements are reported as

a reduction of income tax expense in the year realized. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(j) Net Loss Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 revised the previous calculation methods and presentations of earnings per share and

requires that all prior-period earnings (loss) per share data be restated. The Company adopted SFAS No. 128 in the forth quarter of 1997 as required by this Statement. In accordance with SFAS No. 128, the Company has presented basic loss per share, computed on the basis of the weighted average number of common shares outstanding during the year, and diluted loss per share, computed on the basis of the weighted average number of common shares and all dilutive potential common shares outstanding during the year. All prior period loss per share amounts have been restated in accordance with this Statement.

At December 31, 1997, the Company has options and common stock warrants outstanding (notes 7 & 8). These options and warrants would have resulted in additional weighted average securities, under the treasury stock method, totaling 410,459, 1,133,822 and 203,951 for the three years ended December 31, 1997, respectively. The potetially dilutive effect of these securities has not been considered in the computation of diluted net loss per common share since their inclusion would be anti-dilutive.

(k) Use of Estimates

Management of the Company has made a number of estimates and assumptions relative to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(l) Reclassifications

Certain reclassifications have been made to prior year financial statements to conform with the December 31, 1997 presentation.

(m) Year 2000 Issue

The Company has developed a plan to modify its information technology to be ready for the year 2000. The Company relies upon PC-based systems and does not expect to incur material costs to transition to Year 2000 compliant systems in its internal operations. The Company does not expect this project to have a significant effect on operations. The Company will continue to implement systems and all new investments are expected to be with Year 2000 compliant software.

(n) Stock Option Plans

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the day of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, which permits

entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income (loss) and pro forma earnings (loss) per share disclosures for employee stock option grants made in 1995 and

future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of ABP Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of, on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

(2) Related Party Transactions:

Under consulting agreements between Thoma Corporation ("Thoma") and the Company, Thoma receives payments for consulting services and reimbursement of direct expenses. Herbert H. McDade, Jr., the Chairman of the Board of Directors of the Company, is an owner of Thoma Corp. During 1997, 1996 and 1995 Thoma received payments for consulting services of $72,000, $60,000 and $0 respectively. Thoma was also reimbursed for expenses of $6,000, $18,000, and $3,000 respectively, in 1997, 1996 and 1995.

Stephen B. Howell, M.D., Director of the Company receives payments for consulting services and reimbursement of direct expenses. Dr. Howell consulted with the Company in 1997 and received $2,000 in consulting fees and $1,000 in expenses.

On October 4, 1995, Chemex made a loan to API of $100,000 which was evidenced by a 7% promissory note. In addition, Chemex sold the remainder of its fixed assets to API at book value in the fourth quarter of 1995. A payable to Chemex for approximately $47,000 was recorded at December 31, 1995 for these fixed assets. The loan and payable were both eliminated on January 25, 1996, the date of the merger.

See Note 10 "Commitments", for transactions regarding Dr. David F. Ranney, a major shareholder of the Company.

(3) Research and Development Agreements:

On August 1, 1997, the Company entered into an agreement with The Dow Chemical Company ("Dow Chemical") for the development of products incorporating Dow Chemical's chelation technology and Access' Bio~Responsive polymer systems. The collaboration will focus on the development of MRI contrast agents and radiopharmaceutical diagnostics and therapeutics. The advancement of the Access developments in these areas are dependent on securing chelation technology, which encapsulates metals to

avoid adverse effects on the body.

The Company entered into a technology evaluation option agreement with a pharmaceutical company. The Company recognized revenues under the agreement as certain milestones were achieved and accounted for $110,000 and $165,000 in 1997 and 1996, respectively. Proceeds received in excess of amounts recognized were accounted for as unearned income. This agreement was terminated March 29, 1996.

On April 26, 1994, the Company entered into agreements, as amended, with Corange International Ltd. (Corange) to develop drugs based on the Company's endothelial binding technology for use in the oncology area. Under the agreements, the Company granted Corange an option for a period up to two years, as defined, to exclusively license worldwide, any oncology agent developed pursuant to the terms of the common research agreement. In 1995, Corange made $495,000 in payments to the Company for sponsored research and development which amounts were recognized as revenue in 1995. In addition, $180,000 of unearned revenue at December 31, 1994 was recognized as revenue in 1995 pursuant to the Corange agreements. The Corange agreements were terminated by Corange on June 30, 1995.

(4) Fair Value of Financial Instruments

The carrying value of current assets and current liabilities approximates fair value due to the short maturity of these items.

(5) Property and Equipment:

Property and equipment, of which a majority is held under capital leases, consists of the following:

<TABLE>
<CAPTION>

	December 31, 1997	1996
<S>	<C>	<C>
Laboratory equipment	$ 852,000	$448,000
Laboratory and building improvements	25,000	23,000
Furniture and equipment	170,000	114,000
	1,047,000	585,000
Less accumulated depreciation and amortization	625,000	285,000
Net property and equipment	$ 422,000	$300,000

</TABLE>

Depreciation and amortization on property and equipment was $137,000, $123,000, and $115,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

(6) Leases:

At December 31, 1997, future minimum lease payments under capital lease obligations and commitments under noncancelable operating leases were as follows:

<TABLE>
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	Capital leases	Operating leases
<S>	<C>	<C>
1998	$ 211,000	$ 77,000
1999	126,000	81,000
2000	31,000	85,000

2001	-	90,000
2002	-	85,000
Total future minimum lease payments	368,000	$418,000
Less amount representing interest	45,000	
Present value of minimum capital lease payments	323,000	
Less current portion	181,000	
Obligations under capital leases, excluding current portion		$142,000

</TABLE>

The Company leases certain office and research and development facilities under an operating lease. Rent expense for the years ended December 31, 1997, 1996 and 1995 was $74,000, $69,000 and $59,000, respectively.

In September 1994, pursuant to a sales leaseback transaction, the Company sold substantially all of its property and

equipment for $426,000, which amount equaled the net book value of the property and equipment sold. The lease agreement is classified as a capital lease with an initial minimum obligation of $426,000, payable in 42 monthly installments plus interest. The agreement allows for the purchase of the equipment at the end of the lease term for $43,000, which management intends to purchase in April 1998. The Company also issued a warrant to the lessor for the purchase of 135,899 shares of the Company's common stock at an exercise price of $0.52 per share, subject to adjustment, as part of the transaction (see Note 7).

(7) Stockholders' Equity:

(a) Preferred Stock

The Company is authorized to issue 10,000,000 shares of $0.01 par value preferred stock, none of which was issued or outstanding at December 31, 1997 or 1996.

(b) Common Stock

The Company is authorized to issue 60,000,000 shares of $0.04 par value common stock, 32,609,010 of which was issued or outstanding at December 31, 1997. No dividends have been paid or declared by the Company since its inception.

(c) Warrants

The Company has issued 500,000 Units to the Sentinel Charitable Remainder Trust (the "Trust") consisting in the aggregate of 500,000 shares of common stock and warrants exercisable in the aggregate for an additional 700,000 shares of common stock. The authorization and issuance of the Units was made in connection with a Conversion Agreement, dated June 18, 1990, as amended, by and between the Company and the Trust (the "Conversion Agreement"). Pursuant to the terms of the Conversion Agreement, each Unit has an exercise price of $2.50 and the rights to subscribe for the Units expire on January 1, 1999.

Each warrant issuable in connection with the Units described above is exercisable for one share of common stock (subject to adjustment as provided in the warrant), with 500,000 of the warrants exercisable at $6.25 and the remaining 200,000 warrants exercisable at $2.50, all upon terms and conditions set forth in

the Conversion Agreement. The warrants expire on January 1, 2000.

Under the terms of the 1994 lease agreement (described in Note 6), the leasing company received a warrant to purchase 135,899 shares of common stock. The warrant remains exercisable for seven years from the date of issuance and will expire on September 19, 2001. The warrant is exercisable at $.52 per share. The warrant may be adjusted under some conditions, as defined, for dividends, changes in stock price, reorganization, consolidation or merger and extraordinary events.

On October 5, 1995 API entered into an agreement with a shareholder to purchase 47,803 Units of API equity. Each Unit consisted of one share of stock and one warrant. The exercise price for the warrants is $0.52 for every two warrants, which entitles the holder to one share of common stock. The warrants are exercisable until October 5, 1999.

Under the terms of the merger on January 25, 1996, a maximum of 750,000 warrants could have been issued to the former holders of record of API Common Stock upon the occurrence of certain conditions within twelve months of the merger. These warrants would have been exercisable at $0.75 per share with a 5 year expiration from the date of issue. These conditions did not occur by January 25, 1997, therefore these warrants were not issued and have expired.

During 1996, under terms of a consulting agreement, a shareholder received warrants to purchase 600,000 shares of common stock at an exercise price of $1.00 per share any time from March 5, 1997 until March 4, 2000, for

compensation for consulting services. The fair value of the warrants was $0.77 on the date of the grant using the Black-Scholes pricing model with the following assumptions: 1996-expected dividend yield 0.0%, risk-free interest rate 6.1%, expected volatility 100% and an expected life of 3 years. The portion of the total fair value of the warrants relating to the consulting services ($344,000) has been recorded as general and administrative expense and an increase to additional paid-in capital in the accompanying 1996 consolidated financial statements.

During 1997, under terms of an agreement, a financial advisor received warrants to purchase 750,000 shares of common stock, one-half (375,000 shares) at an exercise price of $0.60 per share, and one-half (375,000 shares) at an exercise price of $0.90 per share any time from January 1, 1998 until June 30, 2002, for financial consulting services rendered in 1997. The fair value of the warrants was $0.25 on the date of the grant using the Black-Scholes pricing model with the following assumptions: 1997-expected dividend yield 0.0%, risk-free interest rate 5.6%, expected volatility 129% and an expected life of 5 years. Total fair value of the warrants relating to the consulting services ($188,000) has been recorded as general and administrative expense and an increase to additional paid-in capital in the accompanying 1997 consolidated financial statements.

(8) Stock Option Plans

The Company adopted a new stock option plan (the "1995 Stock Awards Plan") on January 25, 1996 and reserved 2,000,000 shares of the Company's authorized but unissued common stock for issuance to optionees including officers, employees, and other individuals

performing services for the Company. The 1995 Stock Awards Plan replaced the previously approved stock options plan (the "1987 Stock Awards Plan") and API's stock option plan ("API Stock Option Plan"). Options granted under the plans vest ratably over a 4-5 year period and are generally exercisable over a ten-year period from the date of grant. However, as a result of certain events occurring in 1995, all granted options in the 1987 Stock Awards Plan became vested and exercisable and all options in the API Stock Option Plan were exercised or forfeited. No further grants have been or can be made under the 1987 Stock Awards Plan and the API Stock Option Plan has been canceled. New stock options are generally granted with an exercise price equal to the stock's quoted market value at the date of grant.

At December 31, 1997 there were 1,357,000 additional shares available for grant under the 1995 Stock Awards Plan. The per share weighted-average fair value of stock options granted during 1997 was $0.65 on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions: 1997-expected dividend yield 0.0%, risk-free interest rate 5.6%, expected volatility 129% and an expected vesting life of 4 years for option grants. The per share weighted-average fair value of stock options granted during 1996 was $0.92 on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions: 1996-expected dividend yield 0.0%, risk-free interest rate 6.0%, expected volatility 100% and an expected life of 4 years.

The Company applies APB Opinion No. 25 in accounting for its 1995 Stock Awards Plan. Accordingly, no compensation expense has been recognized in the accompanying Consolidated Statements of Operations for employee stock options because the quoted market price of the underlying common stock did not exceed the exercise price of the option at the date of grant. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net loss and loss per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
Net Loss			
As reported	$(4,441,000)	$(11,462,000)	$(1,099,000)
Pro forma	(4,614,000)	(11,563,000)	(1,101,000)
Basic and diluted loss per share			
As reported	$(0.14)	$(0.38)	$(0.09)
Pro forma	$(0.15)	$(0.39)	$(0.09)

</TABLE>

Pro forma net loss and loss per share amounts reflect only options granted in 1997 and 1996. No options were granted in 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net loss amounts and loss per share presented above because compensation cost is reflected over the awards' vesting period of four and five years and compensation cost for options granted prior to January 1, 1995 is not considered.

(a) 1995 Stock Awards Plan
Summarized information for the 1995 Stock Awards Plan is as follows:

<TABLE>
<CAPTION>
1995 Stock Awards Plan

	Stock Options	Weighted-Average Exercise Price
<S>	<C>	<C>
Outstanding options at December 31, 1995	-	$ -
Granted	665,998	1.32
Forfeited	(36,000)	(1.44)
Exercised	-	-
Outstanding options at December 31, 1996	629,998	1.31
Granted	164,335	.65
Forfeited	(151,333)	(1.38)
Exercised	-	-
Outstanding options at December 31, 1997	643,000	1.02

</TABLE>
At December 31, 1997, the range of exercise prices and weighted average remaining contractual life of outstanding options was $0.28 - $1.81 and 9 years, respectively.

At December 31, 1997, the number of awards exercisable was 179,000 and the weighted-average exercise price of those options was $1.28. At December 31, 1996, the number of options was 95,000 and the weighted-average exercise price of those awards was $1.31.

(b) 1987 Stock Awards Plan

Chemex adopted the 1987 Stock Awards Plan in 1987. All issued options and stock appreciation rights ("SAR's") became vested and exercisable due to the merger on January 25, 1996. No further grants can be made. Summarized information for the 1987 Stock Awards Plan is as follows:

<TABLE>
<CAPTION>
1987 Stock Awards Plan

	Incentive Stock Options	SAR's	1987 Non-Employee Director Plan	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding awards, from Chemex,December 31, 1995	976,097	338,665	279,117	$1.99
Granted	-	-	-	-
Forfeited	(151,375)	-	(100,900)	2.57
Exercised	(27,428)	(134,714)	-	.15
Outstanding awards, December 31, 1996	797,294	203,951	178,217	2.04
Granted	-	-	-	-
Forfeited	(22,500)	-	(73,217)	3.62
Exercised	-	-	-	-
Outstanding awards at December 31, 1997	774,794	203,951	105,000	1.90

</TABLE>

At December 31, 1996, the range of exercise prices and weighted average remaining contractual life of

outstanding awards was $0.00 - $9.00 and 6 years respectively. At December 31, 1997, the range of exercise prices and weighted average remaining contractual life of outstanding awards was $0.00 - $5.13 and 5 years respectively.

At December 31, 1996, the number of awards exercisable was 1,179,462 and the weighted-average exercise price of those awards was $2.04. At December 31, 1997, the number of awards exercisable was 1,083,745 and the weighted-average exercise price of those awards was $1.90.

(9) Income Taxes:

The Company follows Statement of Financial Accounting Standards Number 109 - Accounting for Income Taxes ("FASB 109"). No provision for federal income taxes has been made in fiscal years 1997, 1996 and 1995 due to the operating losses incurred for income tax purposes. The Company's only significant temporary difference relates to net operating loss carryforwards. This resulted in gross deferred tax assets of approximately $14,700,000 and $13,515,000 at December 31, 1997 and 1996, respectively, all of which have been fully reserved. Because the Company has a history of losses, a 100% provision against the deferred tax assets was recorded in the form of a valuation allowance. Increases in the valuation allowance amounted to $1,185,000, $954,000 and $360,000 during the years ended December 31, 1997, 1996 and 1995, respectively. At December 31, 1997, the Company's regular and alternative minimum tax net operating loss carry-forwards for federal income tax purposes approximated $42 million, which if not utilized, will expire in varying amounts through the year 2011. As a result of the merger on January 25, 1996, a change in control occurred for federal income tax purposes which limited the utilization of pre-merger net operating loss carry-forwards related to Chemex to approximately $530,000 per year.

(10) Commitments and Contingencies:

The Company is not currently a party to any material legal proceedings.

Under the terms of the "Patent Purchase Agreement" dated April 5, 1994, as amended on January 23, 1996 between Dr. David F. Ranney and the Company, Dr. Ranney, a majority stockholder, is entitled to yearly cash royalty payments as consideration for the assignment of patents to the Company as follows:

Royalty Payments	
Date	Amount
April 15, 1994	$7,500
January 31, 1995	$15,000
January 31, 1996	$25,000
January 31, 1997	$50,000

Thereafter each January 31, payments equal to 105% of the payment made in the immediately preceding calendar year will be paid to Dr. Ranney through the life of the patents. A royalty of $52,500 and $ 50,000 was payable at December 31, 1997 and 1996, respectively, and included in the accompanying consolidated balance sheets. Access will also pay Dr. Ranney a royalty of three quarters of one percent (0.75%) of gross revenues derived from products covered by the patents.

(11) Liquidity:

The Company has incurred negative cash flows from operations since its inception, and has expended, and expects to

continue to expend in the future, substantial funds to complete its planned product development efforts. The Company expects that its existing capital resources will be adequate to fund the Company's operations through the next two to six months. The Company is dependent on raising additional capital to fund its development of technology and to implement its business plan. Such dependence will continue at least until the Company begins marketing its new technologies.

If the anticipated revenues are delayed or do not occur or the Company is unsuccessful in raising additional capital on acceptable terms, the Company would be required to curtail research and development and general and administrative expenditures so that working capital would cover reduced operations into the third quarter of 1998. There can be no assurance, however, that changes in the Company's operating expenses will not result in the expenditure of such resources before such time.

The Company will require substantial funds to conduct research and development programs, preclinical studies and clinical trials of its potential products. The Company's future capital requirements and adequacy of available funds will depend on many factors including: the successful commercialization of amlexanox; the ability to establish and maintain collaborative arrangements for research, development and commercialization of products with corporate partners; continued scientific progress in the Company's research and development programs; the magnitude, scope and results of preclinical testing and clinical trials; the costs involved in filing, prosecuting and enforcing patent claims; competing technological developments; the cost of manufacturing and scale-up; and, the ability to establish and maintain effective commercialization activities and arrangements.

The Company intends to seek additional funding through research and development or licensing arrangements with potential corporate partners, public or private financing, or from other sources. The Company does not have any committed sources of additional financing and there can be no assurance that additional financing will be available on favorable terms, if at all. In the event that adequate funding is not available, the Company may be required to delay, reduce or eliminate one or more of its research or development programs or obtain funds through arrangements with corporate collaborators or others that may require the Company to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than the Company would otherwise seek. Insufficient financing may also require the Company to relinquish rights to certain of its technologies that the Company would otherwise develop or commercialize itself. If adequate funds are not available, the Company's business, financial condition and results of operations will be materially and adversely effected.

(12) Subsequent Events:

On March 11, 1998 the Company sent to the shareholders a request to amend Access' Certificate of incorporation, as amended, to effect a

recapitalization of the Company through a one-for-twenty reverse stock split of Access common stock, $.04 par value per share (the "Common Stock"), decrease the number of authorized shares of Common Stock from 60.0 million to 20.0 million and decrease the authorized shares of preferred stock of the Company from 10.0 million to 2.0 million (the "Recapitalization"). This proposal will decrease the number of outstanding shares of Common Stock from approximately 37.4 million to 1.9 million.

In addition, if the proposal is approved by shareholders, the Company intends to submit an application for listing on NASDAQ or an alternate exchange if it meets all such qualifications. There can be no assurances that the market price immediately after the implementation of the proposed reverse stock split will increase, and if it does increase, there can be no assurance that such increase can be maintained for any period of time, or that such market price will approximate twenty times the market price before the proposed reverse stock split. There can be no assurances that the Company will be listed on any exchange or NASDAQ or an exchange.

On March 20, 1998, the Company, assisted by an investment bank, raised $725,000 in gross proceeds, less issuance costs of $47,250, from the placement of 29 Units. Each Unit consists of 166,667 shares of Common Stock and warrants to purchase 166,667 shares of Common Stock at $0.15 per share. The funds will be used to fund the Company's activities until further funds are raised. The investment bank has been engaged to assist the Company in raising up to a total of $8,000,000 to fund the Company's research and development activities.

EXHIBIT 10.11

Agreement of Merger and Plan of Reorganization
between
Access Pharmaceuticals, Inc.
and
Access Holdings, Inc.
and
Tacora Corporation
dated May 23, 1997

AGREEMENT OF MERGER AND PLAN OF REORGANIZATION

AGREEMENT dated as of May 23, 1997, among ACCESS Pharmaceuticals, Inc., a Delaware corporation ("Parent"), ACCESS Holdings, Inc., a Delaware corporation and direct wholly-owned subsidiary of the Parent ("Acquirer"), and Tacora Corporation, a Delaware corporation ("Target").

WHEREAS, the Boards of Directors of each of Parent, Acquirer, and Target believe that the merger of Acquirer into Target (the "Merger") would be advantageous and beneficial to their respective corporations and stockholders;

WHEREAS, this Agreement is intended to be and is adopted as a plan of reorganization within the meaning of paragraph 368(a) of the Internal Revenue Code of 1986, as amended (the "Code");

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto agree that Acquirer shall be merged into Target upon the terms and subject to the conditions set forth in this Agreement.

1. The Merger.

1.1. Closing and Effective Date of Merger. Subject to the closing conditions in paragraphs 7 and 8, at a closing to be held at the offices of Parent on June 4, 1997 at 10:00 a.m., or on such date and at such time prior to the termination date referred to in paragraph 13 as may be agreed to by the parties (the "Closing Date"), Target and Acquirer shall cause to be definitively executed and delivered to one another the Certificate of Merger substantially in the form attached hereto as Exhibit A (the "Certificate of Merger") and shall cause such document to be filed with the Secretary of State of Delaware, in order to cause the Merger contemplated by this Agreement to become effective under the laws of the State of Delaware. The Merger shall become effective on the date and at the time of the filing of the Certificate of Merger with the Secretary of State of Delaware (the "Effective Date"). References herein to the "Surviving Corporation" shall mean Target on and after the Effective Date.

1.2. Terms and Conditions of Merger. Upon the Effective Date, pursuant to the Certificate of Merger and this Agreement,

(a) Acquirer shall be merged with and into Target and the separate existence of Acquirer shall cease;

(b) Target shall continue as the Surviving Corporation organized under the laws of the state of Delaware, the authorized capital stock of which shall be one thousand (1,000) shares of common stock, par value $.01 per share;

(c) the Certificate of Incorporation of the Surviving Corporation shall be the Certificate of Incorporation of Acquirer in effect immediately prior to the Effective Date;

(d) all of the issued and outstanding shares of the capital stock of Target shall be deemed canceled, without further act by any person, and shall not represent any share of the capital stock of the Surviving Corporation, all of such shares of the capital stock of Target, together with the interests of certain holders of Target options, warrants and other rights to acquire capital stock of Target ("Claims"), being automatically converted (subject to statutory dissenters' rights of appraisal) into rights ("Rights") to receive shares of the common stock (subject to adjustments for any recapitalizations of Parent), $.04 par value per share, of Parent (the "Parent Common Stock") all as provided, and according to the priorities set forth, in paragraphs 2.1 and 2.2, with the certificates representing such shares of the capital stock of Target thereupon representing such Rights to receive such shares of Parent Common Stock (subject to statutory dissenters' rights of appraisal), such Rights shall not be transferable except by will or the laws of descent and distribution without the prior written consent of Parent and Parent shall be entitled to rely on the stock and other records of Target as of immediately before the Effective Date in determining any Target Stockholder or other third party entitled to receive any Rights or distributions thereon pursuant to this Agreement and shall not be liable to any person for any payments or distributions made in reliance on such records;

(e) The capital stock of Acquirer shall remain outstanding as the capital stock of Surviving Corporation, all of which shall be owned by Parent as of the Effective Date;

(f) the By-Laws of the Surviving Corporation shall be the By-Laws of Acquirer in effect immediately prior to the Effective Date;

(g) all of the estate, properties, rights, privileges, powers and franchises of Target and Acquirer and all of their property, real, personal and mixed, and all debts and obligations of any kind of Target or Acquirer shall vest in the Surviving Corporation, without further act or deed; and

(h) the directors and officers of the Surviving Corporation as of the Effective Date shall be those specified in the Certificate of Merger.

2. Conversion of Shares, Payments, etc.

2.1. Conversion of Shares. As provided in paragraph 1.2(d), upon the Effective Date, the issued and outstanding shares of the capital stock of Target and all Claims shall be automatically converted, without further act by any person, into Rights to acquire shares of the Parent Common Stock in accordance with the following provisions of this paragraph 2.1, and the earn-out payments specified in paragraph 2.2:

(a) Conversion; Exchange Rate. Each share of the capital stock of Target which is issued and outstanding at the Effective Date and each Claim shall, at the Effective Date, be converted (subject to statutory dissenters' rights of appraisal) without any further act by any person, into the right to receive

such number of shares of Parent Common Stock as determined in accordance with paragraph 2.2 and the priorities set forth therein.

(b) Procedures. Each of the former Target Stockholders shall, from and after the Effective Date and upon surrender to Parent at its main office located in Dallas, Texas of the certificate or certificates formerly representing all of the shares of the capital stock of Target held by the former Target Stockholder, receive in exchange therefor the right to receive the number of shares of Parent Common Stock as determined in accordance with paragraph 2.2 and the priorities set forth therein. The aggregate amount of such shares of Parent Common Stock exchanged pursuant to this paragraph 2, shall hereinafter be referred to as the "Exchanged Shares." All certificates representing the Exchanged Shares shall bear federal securities law and other applicable securities law restrictive legends.

(c) Fractional Shares. No fractional shares of, and no scrip or fractional share certificates for Parent Common Stock will be issued or delivered pursuant to this Agreement, and no right to vote or receive any dividend or other distribution or any other right of a stockholder shall attach to any fractional interest in Parent Common Stock to which any former Target Stockholder would otherwise be entitled. In lieu thereof, there shall be paid to each former Target Stockholder who would otherwise have been entitled to a fractional share of Parent Common Stock pursuant to paragraph 2.1(a) and (b), a cash payment in respect of such fractional interest determined by valuing Parent Common Stock at its unweighted average closing price on the OTC Bulletin Board for the five (5) trading days before the Effective Date.

(d) Rights After Effective Date and Until Surrender, etc. No former Target Stockholder shall be entitled to exercise any rights with respect to Target after the Effective Date (except prosecution of statutory dissenters' rights of appraisal). Each former Target Stockholder entitled to receive Exchanged Shares hereunder shall be entitled to receive dividends and other distributions on or in respect of each Exchanged Share to which he or she is entitled, from and after the Effective Date and the date on which such Exchange Shares become vested, and to vote such shares, but will not be entitled to receive the certificate therefor until the surrender and exchange provided for in paragraph 2.1 (b) is completed.

(e) Exercise of Options, Warrants and Conversion of Notes. On or before the Effective Date, all outstanding stock options, warrants, Claims and other rights to purchase or acquire capital stock of the Target shall be exercised or exchanged as provided in paragraph 7.9 hereof, and all outstanding Convertible Promissory Notes of Target and other securities exchangeable for or convertible into capital stock of the Target shall be exchanged and/or converted into capital stock of the Target. For all purposes of this Agreement, the shares of the capital stock of Target issued upon exercise or in exchange for such outstanding stock options, warrants and other rights or upon conversion of such Convertible Promissory Notes and other securities exchangeable for or convertible into the capital stock of Target shall be deemed to be shares of the capital stock of Target for purposes of this Agreement and the recipients thereof shall be deemed to be Target Stockholders.

2.2. Consideration

As consideration for the Merger, the Target Stockholders, holders of Claims and other persons or entities entitled hereunder to receive shares of Parent Common Stock (subject to payments made to creditors as set forth in this paragraph2.2) shall be issued shares of Parent Common Stock, if any, in the amounts and according to the priorities set forth in this paragraph 2.2:

(a) Effective Date Amounts. Upon the Effective Date, such number of shares of Parent Common Stock as shall equal $100,000 divided by the average of the closing prices of the Parent Common Stock on the OTC Bulletin Board for each of the five trading days prior to the Effective Date plus such number of shares of Parent Common Stock as shall equal $500,000 divided by the share price of the Parent Common Stock as determined in accordance with paragraph 2.2(d).

(b) Milestone Amounts. On the achievement, as determined by a majority of the members of the Development Committee (as defined below), of each of the following milestones (each a "Milestone" and together the "Milestones"), such number of Unvested Parent Common Shares as have an aggregate value, as determined pursuant to paragraphs 2.2(c) and 2.2(d) as of the date on which the Milestone shall have been achieved and payable in accordance with the terms of paragraph 2.2(b) and 2.2(c), equal to the value of the Milestone as set forth below shall be released in accordance with the provisions of paragraphs 2.2(b) and 2.2(c) as of the Closing Date, at the end of the fiscal quarter of Parent during which the Milestone shall have been achieved; provided, however, that the Milestone must have been achieved prior to the date that is the last day of the thirtieth (30th) month after the Commencement Date for such Milestone as determined by reference to the following table, provided that if, in the determination of the Development Committee, work on or towards a Milestone is ceased or materially affected by reason of strikes, riots, war, invasion, acts of God, fire, explosion, floods, acts of civil or military government agencies or instrumentalities (except for delays in or the refusal to grant approvals or clearances for drugs, products or devices by the United States Food and Drug Administration or any similar or successor United States government agency (the "FDA") or by any non-United States government agency having similar functions or a similar mandate as the FDA or delays in or the refusal to grant or award patents or patent allowances by the United States Patent and Trademark Office or any successor United States government agency (the "PTO") or by any non-United States government agency having similar functions or a similar mandate as the PTO) and other similar contingencies beyond the reasonable control of Parent or any of the Target Stockholders, the date for achievement of such Milestone shall be extended to such date that the Development Committee shall select (the "Milestone Deadline Date"); provided, further, that if at the date such shares vest there shall have been delivered to the Representative any Notice of Indemnification pursuant to paragraph 14.2(b), then all such shares of Parent Common Stock shall be held by Parent pending resolution of any claims for indemnification in such Notice(s) of Indemnification:

<TABLE>

	Value Payable in Parent	Commencement Date (in calendar) days after the

Milestone	Common Stock	Closing Date
<S>	<C>	<C>
1. EORTC approval to initiate human studies with Cisplatin or other polymer platinates based on animal efficacy and toxicity achieving the EORTC's predetermined parameters.	$ 3 million	45
2. Completion of Phase I/II study with Cisplatin and agreement by the technology development committee to proceed to Phase III or Phase II B Studies.	$ 2 million	45
3. Commercial alliance for Cisplatin development.	$1 million	45
4. Commencing process of commercialization of one additional Tacora oncology compound and EORTC or IND approval of Phase I studies.	$500,000	90
5. Loaded particle with triggered pore stable in plasma with positive efficacy in an animal model with agreement to proceed to development.	$1 million	90
6. Filing of an IND for a product being developed under the Mayo/Fernandez technology license.	$1 million	90
7. Acceptance for publication of "Landmark" manuscript in Nature, Science or a journal of similar stature including the Journal of Controlled Release.	$250,000	0
8. Successful formulation of antigen/adjuvant with in vivo proof of principal of incremental efficacy.	$500,000	90
9. Completion of commercial alliance with an antigen/adjuvant to commence development.	$500,000	45
10. U.S. notice of allowance of Cisplatin patent covering product development.	$350,000	0
11. European Patent Office Notice of Allowance of Cisplatin patent covering product development.	$150,000	0
12. U.S. notice of allowance of pore-forming protein patent or new Tacora core patent.	$350,000	0
13. European Patent Office Notice of Allowance of pore-forming protein patent or new Tacora patent.	$150,000	0
14. Commercial agreement to develop an ultrasound triggered release condensed particle therapeutic system.	$500,000	90
15. Commercial agreement to develop a product in an additional field of use.	$500,000	0

</TABLE>

Upon EORTC approval to initiate human studies with Cisplatin or other polymer platinates, Milestone 1, the Milestone payment will be calculated based on such approval date and the Parent Common Stock issuable will be held in escrow by Parent pending successful completion of the scale-up, production and stability testing of the final formulation and completion for the formal toxicology studies to enable commencement of Phase 1 clinical testing.

(c) Milestone Payment Priorities. (i) The Parties anticipate that Target's unaudited balance sheet as of the Closing Date will reveal total liabilities of approximately $1,455,000. Such liabilities shall become liabilities of the Surviving Corporation after the Closing Date. Parent shall contribute to the capital of the Surviving Corporation and the Surviving Corporation shall be obligated to pay the first $250,000 of such liabilities (to creditors on a pro rata basis) within thirty (30) days after the Closing without any offset against Milestones that are otherwise due to the Target Stockholders and holders of Claims hereunder. Any liabilities of the Surviving Corporation in excess of $250,000 shall first be offset dollar for dollar against Parent Common Stock otherwise due to Target Stockholders and holders of Claims (or creditors) under the next Milestone(s) to come due; provided however that shares of Parent Common Stock issued under paragraph 2.2(a) shall be used to pay any such liabilities in excess of such $250,000. Unless one or more creditors of Target agrees in writing to subordinate its position to other

creditors, the Surviving Corporation shall be entitled to pay all creditors of Target on a pro rata basis or in such order of priority as determined by Parent in its sole discretion, based upon the amount then due and owing to such creditors.

(ii) At such time as all outstanding liabilities to creditors of Target are satisfied (other than liabilities to creditors as set forth in paragraphs 2.2(c)(iii), (iv) and (v) below), the Parent Common Stock issued for the next Milestone(s) achieved will be used to settle Target's outstanding loan to Medical Innovation Partners which is estimated at the Closing Date to be $365,500. Medical Innovation Partners will be entitled to receive a number of shares which equals the amount of such debt divided by the Parent's current share price; provided, however, that the Milestone payment in Parent Common Stock will be calculated in accordance with paragraphs 2.2(d).

(iii) Proceeds from the next Milestone(s) achieved will be used to satisfy, pro rata, Target's outstanding obligations relating to the Glynn Wilson and Donald McCarren settlement agreements, executed copies of which have been delivered to Parent. Target's obligations under such settlement agreements are estimated to be $78,269 for Glynn Wilson and $180,000 for Donald McCarren. These amounts are subject to adjustment for any subsequent payments made under such settlement agreements. The Milestone payment in Parent Common Stock shall be calculated in accordance with paragraph 2.2(d).

(iv) After satisfaction of all obligations to creditors set forth in paragraphs 2.2(c)(i)-(iii) set forth above, proceeds from the next Milestone(s) achieved shall be payable as follows:

(x) to Dr. Glynn Wilson as per the employment settlement agreement dated as of February 1, 1997 between Target and Dr. Wilson as follows:

(A) 1% of any Milestone achieved;
(B) 1% of any Milestone achieved within the timetable for Milestones set forth on Schedule 2.2 hereto; and
(C) 1% of any Milestone achieved within the thirty (30) month time period for achievement thereof under this Agreement if and to the extent employed full-time by Parent, with a proportionate reduction in such percentage if Wilson is then employed less than full time by Parent.

The parties agree that Dr. Wilson shall be entitled to receive an amount of Parent Common Stock equal to the 1% commissions described in (A), (B), and (C) above at the fair market value of the Parent Common Stock at the time of the achievement of any such Milestones. These commissions shall accrue and will be paid out subordinate to and after the priority payments described in paragraphs 2.2(c) (i-iii) to Dr. Wilson upon the achievement, if at all, of sufficient Milestones to make such payments in addition to any subsequent commissions earned and payable as a result of the ongoing achievement of Milestones. These commissions shall be deductions from any such Milestone payments to Target Stockholders.

(y) to Grayson & Associates, Inc. ("Grayson") as per the letter agreement between Target and Grayson, dated October 30, 1995 commissions on total consideration paid by Parent under this paragraph 2.2 including any payments made to satisfy outstanding liabilities, payments to

trade creditors, outstanding loans, and other payments made to Target creditors under this paragraph 2.2, such commissions to be calculated as follows:

5% of the first $2,000,000;
4% of amounts over $2,000,000 and up to $4,000,000;
3% of amounts over $4,000,000 and up to $6,000,000;
2% of amounts over $6,000,000 and up to $8,000,000;
1% of amounts over $8,000,000.

The parties agree that Grayson shall be entitled to receive an amount of Parent Common Stock equal in value to the amount calculated from the table above at the fair market value of the Parent Common Stock at the time of any payments made on behalf of Target described in paragraph (y) above. These commissions shall accrue and shall be paid out subordinate to and after such priority payments described in paragraphs 2.2(c) (i-iii) above. These accrued commissions shall be paid out upon achievement, if at all, of sufficient Milestones to make such payments in addition to any subsequent commissions earned and payable as a result of the ongoing achievement of Milestones. These commissions shall be deductions from any such Milestone payments to Target Stockholders and holders of Claims.

(v) The actual, direct out-of-pocket costs and expenses incurred by Target representative with observation rights on the Parent's Board of Directors, the Development Committee members appointed by the Target Shareholders and the Representatives incurred in carrying out their responsibilities under this Merger Agreement shall be treated as general creditors' claims and shall be paid, if at all, only in shares of Parent Common Stock issued under paragraph 2.2(a) based on the fair market value of Parent Common Stock payable as Milestones are met; provided that Parent shall not be required to make any payments over and above any amounts that would be otherwise due with respect to the achievement of Milestones.

(vi) Proceeds from the next Milestone(s) will be used to satisfy the liquidation preference of Target's Preferred Shareholders and applicable Claim holders (i.e., those Claim holders who voluntarily waived and released their claim to receive Target Preferred Stock in exchange for treatment hereunder equivalent to a Target Preferred Shareholder) of $1.00 per share (representing up to an aggregate of $5,922,832) pursuant to the liquidation preference provisions of Target's Series A Preferred Stock contained in Target's Certificate of Incorporation. At such time as such liquidation preference has been satisfied, thereafter, Target Preferred and Common shareholders and any other persons entitled to receive consideration equivalent to that of a Common Shareholder (i.e., those Claim holders who voluntarily waived and released their rights under Target's outstanding options and warrants) will participate on a pro rata basis in all future Milestone(s) payments as calculated in accordance with paragraph 2.2(d).

(d) For purposes of this paragraph 2.2, the number of Common Parent Shares which will become vested and shall be released to the Target Stockholders on the achievement of a Milestone shall be calculated by averaging the closing price of the Parent Common Stock for each of the five (5) trading days preceding the day on which the Milestone was achieved divided into the value attributed to the Milestone; provided, however, in order to provide a floor and ceiling on the number of shares of Parent Common Stock to be issued, in no

event will the closing price of Parent Common Stock used in such calculation be at prices below the floor share price or above the ceiling share price as determined by the following schedule:

Time of Milestone Achievement	Floor Share Price	Ceiling Share Price
Effective Date thru and including month 6	2.50	3.50
Beginning of month 7 thru and including month 12	3.50	5.00
Beginning of month 13 thru and including month 18	4.50	6.00
Beginning of month 19 thru and including month 30	5.50	6.50

;provided, further, that in the event of any reorganization, recapitalization or reclassification of the capital stock of Parent, or if at any time or from time to time after the date of this Agreement Parent shall subdivide or recapitalize its outstanding shares of capital stock, or if at any time after the date of this Agreement Parent shall declare a dividend or make any other distribution upon any class or series of capital stock of Parent payable in Parent Common Stock or securities convertible into Parent Common Stock, the Floor Share Prices and the Ceiling Share Prices set forth above shall be adjusted proportionately to reflect such reorganization, recapitalization or reclassification, such subdivision or the payment of such stock dividend, as applicable.

(e) Cash Payment for Achievement of Milestones Prior to Closing. Up to $400,000 of any revenues of Target received as a result of ongoing business activities of Target prior to the Closing Date may be used by Target to satisfy any outstanding liabilities as set forth on Target's current unaudited balance sheet a copy of which is attached to Schedule 3.7; provided, however, that an amount equal to the total amount of any such payments shall be deducted from the stated value of the appropriate Milestone relating to any such revenues.

(f) Research and Development Commitment. Parent will commit at least $320,000, to be used as set forth on Exhibit B attached hereto, to achieve the Milestones. In addition, Parent will use commercially reasonable efforts to support achievement of the Development Plan, whether through the Surviving Corporation or any third party licensee or alliance partner involved with the Technology, towards achieving the Milestones. As used herein, "Technology" means the Surviving Corporation's intellectual property, know-how, trade secrets and other technology. The Development Committee will monitor and oversee research and development activities towards achieving the Milestones pursuant to the Product Development Plan. The Development Committee shall meet no less often than every three (3) months in order to monitor progress towards meeting the approved Product Development Plan. Parent will ensure that the Target Stockholder representatives on the Development Committee receive copies of all relevant correspondence to and from any governmental agency concerning the Technology as well as all relevant correspondence to and from any third party concerning the licensing, research, development or use of the Technology. Parent will ensure that the Surviving Corporation diligently and in good faith files, prosecutes and maintains any and all patents and patent applications concerning any Technology.

(g) Parent Covenant to Maintain Technology. From and after the date of this Agreement to the Milestone

Deadline Date, Parent shall not transfer, assign or sell any of the Technology; provided that the sole remedy of the Target, the Target Stockholders and all Claim holders for a breach of this covenant by Parent shall be that all then remaining Milestones to which, in the determination of the Development Committee, the transferred, assigned or sold Technology relates will be deemed to be accomplished as of the date of such transfer, assignment or sale and payment on any such Milestone as determined pursuant to paragraphs 2.2(c) and (d) shall be made within ten (10) business days after such date.

(h) Establishment of Development Committee; Meetings. The Development Committee shall be created within one (1) month after the Effective Date and shall be comprised of two (2) representatives appointed by the Parent and two (2) representatives appointed by a majority of the Target Stockholders. The party appointing a representative to the Development Committee shall have the sole right to remove and replace such individual. All decisions of the Development Committee shall be made by the affirmative vote of at least three (3) committee members in the exercise of good faith to benefit the interests of the Surviving Corporation and the optimum use of the Technology. Within three (3) months of the Effective Date, the Development Committee shall prepare and approve a Product Development Plan, establishing the means for accomplishing the Milestones. All matters submitted to the Development Committee shall be decided upon at the time of the meeting of the Development Committee or within thirty (30) days thereafter. Such decision shall take into consideration such goals as adhering to ethical standards for the research-based pharmaceutical industry, the use of commercially reasonable efforts to develop the Technology, and obtaining patent protection and other governmental approvals concerning the Technology. In the event that a decision cannot be reached by the Development Committee within the time period set forth above, the President of the Parent shall meet with the appointed observer of the Board of Directors of Parent of the Target Stockholders and during such meeting each of the President and such representatives shall in good faith attempt to reach a decision on the matter. If the President and the representatives are unable to reach a decision on the matter, the matter shall be referred to arbitration in accordance with paragraph 2.2(i) herein.

(i) Dispute Resolution.

(i) Disputes Covered by Arbitration. The Parent or a majority of the Target Stockholders may seek to resolve any dispute among the Development Committee members and/or any dispute concerning any Milestone, as the case may be, by initiating an Alternative Dispute Resolution ("ADR") in which the complaining and defending parties each select an independent third party with demonstrated expertise in the pharmaceutical industry (each a "Neutral") as provided herein.

(ii) Selection of Neutrals. An ADR shall be initiated by a party by sending written notice thereof to the other party, which notice shall state the issues to be resolved and such party's selection of a Neutral. Within ten (10) business days after receipt of such notice, the other party will, by sending written notice to the initiating party, add issues to be resolved, if any, and reveal such party's selection of its Neutral. Within fifteen (15) days after the

date of the original ADR notice, the two Neutrals shall together select a third.

(iii) ADR Hearing. The Neutrals shall hold a hearing to resolve the issues within thirty (30) business days after selection. The location of the hearing shall be mutually agreed upon or, if the parties are unable to agree, at Dallas, Texas. Each party may be represented by counsel. Prior to the hearing, the parties shall be entitled to engage in discovery under procedures of the Federal Rules of Civil Procedure; provided, however, that a party may not submit more than one hundred (100) written interrogatories or take more than four (4) depositions. There shall not be, and the Neutrals shall not permit, any discovery within five (5) days of the hearing. The Neutrals shall have sole discretion regarding the admissibility of evidence under the Federal Rules of Civil Procedure and conduct of the hearing. At least three (3) business days prior to the hearing, each party shall submit to the other party and the Neutral a copy of all exhibits on which such party intends to rely at the hearing, a pre-hearing brief (up to 30 pages) and a proposed disposition of the dispute (up to 5 pages). The proposed disposition shall be limited to proposed rulings and remedies on each issue, and shall contain no argument on or analysis of the facts or issues; provided, however, that the parties will not present proposed monetary remedies. Within five (5) business days after close of the hearing, each party may submit a post-hearing brief (up to 10 pages) to the Neutrals.

(iv) ADR Ruling; Fees and Expenses. The Neutrals shall render a disposition on the proposed rulings as expeditiously as possible after the hearing, but not later than fifteen (15) business days after the conclusion of the hearing. The Neutrals shall rule on each issue and a decision of a majority of the Neutrals shall control, but in all events, the majority of Neutrals shall adopt in its entirety the proposed ruling of one of the parties on each issue. In the circumstances where the Neutrals rule for a party on a claim in the form of a claim for monetary damages, the parties will then submit a proposed remedy within ten (10) days of notice of the ruling. The proposed remedy may be accompanied by a brief in support of the remedy not to exceed five (5) pages. A majority of the Neutrals will rule on and adopt one of the proposed remedies within ten (10) days of their submission. The Neutrals' disposition shall be final. A judgment on the Neutrals' disposition may be entered in any court having jurisdiction over the parties. The reasonable fees and expenses of the Neutrals shall be borne equally by the parties or as they otherwise agree.

(v) AAA Rules. Except as otherwise provided in this Section 2.2(h), the Commercial Arbitration Rules of the American Arbitration Association shall be used in connection with the ADR.

(vi) Waiver. A party shall not be prohibited from bringing a claim for resolution under this Section 2.2(i) on the grounds that the claim could have been brought during an earlier proceeding under this Section.

2.3. Target Representation Rights. A majority of the Target Stockholders together will have the right to appoint one person who will have observation rights on the Parent Board of Directors meetings for three years from the Effective Date. A majority of the

Target Stockholders who may appoint such a person shall have the right to remove and replace such person at any time and from time to time during such three year period.

3. Representations and Warranties of Target. Target hereby represents and warrants to Parent and Acquirer as follows. For purposes of this Agreement, the term "Knowledge" in relation to Target means the actual knowledge, after reasonable inquiry, of Donald J. McCarren, Glynn Wilson or F. J. Daugherty.

3.1. Incorporation; Authority. Target is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted in all material respects. Target has made available to Parent complete and correct copies of its Certificate of Incorporation and By-Laws and all amendments thereto.

3.2. Corporate Power, Binding Effect. Subject to the Target Stockholders' approval, Target has all requisite corporate power and authority to enter into this Agreement and the Certificate of Merger, and to perform all of its agreements and obligations under this Agreement and the Certificate of Merger in accordance with their terms. This Agreement has been duly authorized by Target's Board of Directors, has been duly executed and delivered by Target and constitutes the legal, valid and binding obligation of Target, enforceable against Target in accordance with its terms, subject only, in respect of the consummation of the Merger, to requisite approval by the Target Stockholders, and except that (i) such enforcement may be subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which a proceeding therefor may be brought (collectively, the "Enforcement Exceptions"). Upon execution and delivery by Target of the Certificate of Merger on the Closing Date, the Certificate of Merger will have been duly authorized, executed and delivered by, and constitute the legal, valid and binding obligations of, Target subject to the Enforcement Exceptions. Neither the execution, delivery or performance by Target of this Agreement nor of the Certificate of Merger in accordance with their respective terms will result in any violation of or default or creation of any lien under, or the acceleration or vesting or modification of any right or obligation under, or in any conflict with, Target's Certificate of Incorporation or by-laws or of any agreement, instrument, judgment, decree, order, statute, rule or regulation binding on or applicable to Target, except where any of the foregoing would not have a material adverse effect on the business, assets or financial condition of Target.

3.3. Subsidiaries. Target does not have any subsidiaries and does not own or hold of record and/or beneficially any shares of any class in the capital stock of any corporation. Target does not own any legal and/or beneficial interests in any partnerships, business trusts or joint ventures or in any other unincorporated business enterprise.

3.4. Qualification. Target is duly qualified and in good standing as a foreign corporation in each

jurisdiction in which the character of the properties owned or leased or the nature of the activities conducted by it makes such qualification necessary.

3.5. Capitalization. The authorized capital of Target consists of 20,000,000 shares of Target Common Stock, 461,269 shares of which are issued and outstanding on the date hereof and 6,000,000 shares of Target Preferred Stock 1,810,000 shares of which are issued and outstanding on the date hereof. All such outstanding shares of Target Common Stock and Target Preferred Stock are owned of record by the Target Stockholders and the Target Preferred Stockholders as set forth on Schedule 3.5 hereto and are validly issued, fully paid and non-assessable. Schedule 3.5 hereto sets forth a list of all holders of Claims together with the amount of Target Preferred Stock or Target Common Stock to which such Claim holder would have otherwise been entitled to if such Claim holder had not waived and released his or its rights to Target Preferred or Common Stock. Except as set forth in Schedule 3.5, Target is neither a party to nor is bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for Target to issue, deliver or sell, or cause to be issued, delivered or sold any shares of Target Common Stock or Target Preferred Stock or any other equity security of Target or any securities convertible into, exchangeable for or representing the right to subscribe for, purchase or otherwise receive any shares of Target Common Stock or Target Preferred Stock or any other equity security of Target or obligating Target to grant, extend or enter into any such subscriptions, options, warrants, calls, commitments or agreements. As of the date hereof there are no outstanding contractual obligations of the Target to repurchase, redeem or otherwise acquire any shares of capital stock of the Target.

3.6. Lawful Issuance. All of the outstanding shares of Target Common Stock and Target Preferred Stock were issued pursuant to exemptions from registration under the Securities Act of 1933, as amended (the "Securities Act") and applicable state and other securities laws, and all rules and regulations thereunder. There exists no valid right to rescind any purchase thereof from or issuance thereof by Target. No class of securities of Target is required to be registered under any provision of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

3.7. Financial Statements. Attached as Schedule 3.7 hereto, are copies of (i) the audited balance sheet of Target as of December 31, 1995, (the "Audited Balance Sheet"), and the related audited statements of income and stockholders' equity and changes in financial position of Target for the fiscal years ended December 31, 1994 and 1995 accompanied by a report and opinion thereon of KPMG Peat Marwick and (ii) the unaudited balance sheet of Target for the quarter ended June 30, 1996, and related unaudited statements of income for such quarter and an unaudited balance sheet and statement of income for the fiscal year ended December 31, 1996. Additionally, Target hereby agrees to provide Parent with unaudited quarterly updates of its balance sheet and related statement of income for such quarters after December 31, 1996, and up to and including the date of execution and delivery of this Agreement and thereafter up to and including the Closing Date. The Audited Balance Sheet and each other such balance sheet fairly presents the financial condition of Target in all material respects as of its date; and each of such statements of income and

stockholders' equity and changes in financial position and statements of operations fairly presents the results of operations, stockholders' equity and changes in financial position of Target for the period covered thereby.

3.8. Absence of Certain Changes. Except as set forth on Schedule 3.8, since the date of the Audited Balance Sheet, there has not been: (i) any change in the business of Target or in its relationships with suppliers other than changes which were both in the ordinary course of business and have not had a material adverse effect on the business, assets or financial condition of Target; (ii) any acquisition or disposition by Target of any material amount of assets or properties other than in the ordinary course of business; (iii) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting, either in any case or in the aggregate, the business of Target; (iv) any declaration, setting aside or payment of any dividend or any other distributions in respect of any class of the capital stock of Target; (v) any issuance of any shares of any class of the capital stock of Target or any direct or indirect redemption, purchase or other acquisition of any shares of any class of the capital stock of Target; (vi) any increase in the compensation, pension or other benefits payable or to become payable by Target to any of its officers or employees, or any bonus payments or arrangements made to or with any of them; (vii) any entry by Target into any transaction other than in the ordinary course of business; (viii) any incurrence by Target of any material obligations or liabilities, whether absolute, accrued, contingent or otherwise (including, without limitation, liabilities as guarantor or otherwise with respect to obligations of others), other than obligations and liabilities incurred in the ordinary course of business; (ix) any mortgage, pledge, lien, lease, security interest or other charge or encumbrance on any of the assets, tangible or intangible, of Target, other than those arising by operation of law which do not materially impair the operation of Target's business; (x) any change in accounting principles, practices or methods used by Target; or (xi) any discharge or satisfaction by Target of any lien or encumbrance or payment by Target of any obligation or liability (fixed or contingent) other than (A) current liabilities included in the Audited Balance Sheet and (B) current liabilities incurred since the date of the Audited Balance Sheet in the ordinary course of business.

3.9. Title to Property, Leases, etc. Except as set forth in Schedule 3.9(a) hereto, Target has good and marketable title to all of its tangible properties and assets, including, without limitation, all those reflected in the Audited Balance Sheet (except for properties or assets sold or otherwise disposed of in the ordinary course of business since the date of the Audited Balance Sheet), all free and clear of all liens, pledges, charges, security interests, mortgages, encumbrances or title retention agreements of any kind or nature. All such properties and assets are "as-is." Schedule 3.9(b) hereto sets forth a complete and correct list of all capital assets and real properties of Target having a book or fair market value in excess of $10,000. Schedule 3.9(c) hereto sets forth a complete and correct description of all leases of real property under which Target is lessor or lessee and all other leases having a remaining term of more than twelve (12) months or an aggregate remaining rental obligation of more than $10,000 to

which Target is a party, whether as lessor or lessee. Complete and correct copies of all such leases have been delivered to Parent. Each such lease is valid and subsisting and no event or condition exists which constitutes, or after notice or lapse of time or both would constitute, a default thereunder.

3.10. Indebtedness. Except for Indebtedness (as defined in paragraph 16) reflected or reserved against in the Audited Balance Sheet and Indebtedness incurred in the ordinary course of business after the date of the Audited Balance Sheet, Target has no material Indebtedness outstanding at the date hereof. Except as set forth on Schedule 3.10, Target is not in default with respect to any outstanding Indebtedness or any instrument relating thereto and no such Indebtedness or any instrument or agreement relating thereto purports to limit the issuance of any securities by Target or the operation of the business of Target. Complete and correct copies of all instruments (including all amendments, supplements, waivers and consents) relating to any Indebtedness of Target have been made available to Parent.

3.11. Absence of Undisclosed Liabilities. Except to the extent reflected or reserved against in the Audited Balance Sheet or incurred in the ordinary course of business after the date of the Audited Balance Sheet or described in any Schedule hereto, Target has no liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise (including, without limitation, liabilities as guarantor or otherwise with respect to obligations of others) and whether due or to become due, including, without limitation, any liabilities for taxes due or to become due, which would have a material adverse effect on the business, assets or financial condition of Target, taken as a whole, or would be required by generally accepted accounting principles to be reflected on a balance sheet of Target.

3.12. Taxes and Tax Returns.

(a) All material Taxes of any nature whatsoever due and payable by Target prior to the execution hereof and all Tax Returns required to be filed prior to such date have been properly computed in all material respects, duly and timely filed (taking into consideration extensions of time to file) and fully paid and discharged. There are no outstanding agreements or waivers extending the statutory period of limitations applicable to any Tax or Tax Return for any period. Target has paid all material Taxes which have become due pursuant to Tax Returns and has paid all installments of estimated Taxes due. All material Taxes and other material assessments and levies which it is required by law to withhold or to collect have been duly withheld and collected, and have been paid over to the proper governmental authorities to the extent due and payable. All material Taxes not yet due and payable have been properly accrued on the financial statements of it. Subsequent to the date hereof and prior to the Closing Date hereunder, all Tax Returns shall be timely and accurately filed, and any material Tax payable as shown thereby shall be paid, as required by applicable law. Target has not requested nor been granted an extension of the time for filing any Tax Return to a date later than the Closing Date. There are no determined material tax deficiencies or proposed tax assessments (or to the best of its knowledge and belief, the prospects for the same) against it. Target has not incurred any

material liability for penalties, assessments or interest under any federal, state, local or foreign tax laws. Target has withheld and paid all material Taxes required to have been withheld and paid by it in connection with amounts paid or owing to any employee, creditor, independent contractor or other third party.

(b) There are no liens for Taxes (other than current Taxes not yet due and payable) on Target's assets. There is no audit, action, suit, or taxing authority proceeding now in progress, pending or to its Knowledge threatened against it or with respect to any Tax of it, and no claim has ever been made by a taxing authority in a jurisdiction where it does not pay Tax or file Tax Returns that it is or may be subject to Taxes assessed by that jurisdiction.

(c) Target has not been a member of any affiliated group (as defined in Section 1504 of the Code) or filed or been included in a combined, consolidated, aggregate, or unitary income Tax Return. It has never been and is not now a party to or bound by any Tax indemnification, Tax allocation, or Tax sharing agreement or other contractual obligation pursuant to which it is or may at any time in the future be obligated to indemnify any other person or entity with respect to Taxes.

(d) Target is not a party to any agreement, contract, arrangement, or plan that has resulted, or could result by reason of the transactions contemplated hereby, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.

(e) Target has provided the other party with true and complete copies of all Tax Returns filed with respect to it for taxable periods ending after December 31, 1990, and all examination reports and statements of deficiencies assessed against or agreed to be paid by it with respect to such taxable periods.

3.13. Litigation, etc. No action, suit, proceeding or investigation (whether conducted by any judicial or regulatory body or other person) is pending or, to the Knowledge of Target, threatened against Target (nor is there any basis therefor to the Knowledge of Target) which questions the validity of this Agreement or any action taken or to be taken pursuant hereto or which might reasonably be expected, either in any case or in the aggregate, to materially adversely affect the business, assets, or financial condition of Target or materially impair the right or the ability of Target to carry on its business substantially as now conducted.

3.14. Safety, Zoning and Environmental Matters. Neither the offices or properties in or on which Target carries on its business nor the activities carried on therein are in violation of any zoning, health or safety law or regulation, including, without limitation, the Occupational Safety and Health Act of 1970, as amended, except where a violation would not have a material adverse effect on the business, assets or financial condition of the Target. To Target's Knowledge:

(a) Target is not in violation of any judgment, decree, order, law, license, rule or regulation purporting to regulate environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and

Liability Act of 1980 as amended ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state or local statute, regulation, ordinance, order or decree relating to health, safety or the environment (hereinafter "Environmental Laws"), which violation would have a material adverse effect on the business, assets, or financial condition of Target;

(b) Target has not received notice from any third party including without limitation any federal, state or local governmental authority, (i) that Target or any predecessor in interest has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B (1986); (ii) that any hazardous waste as defined by 42 U.S.C. paragraph 6903(5), any hazardous substances as defined by 42 U.S.C. paragraph 9601(14), any pollutant or contaminant as defined by 42 U.S.C. paragraph 9601(33) and any toxic substance, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws ("Hazardous Substances") which Target has generated, transported or disposed of has been found at any site at which a federal, state or local agency or other third party has conducted or has ordered that Target conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that Target is or shall be a named party to any claim, action, cause of action, complaint (contingent or otherwise) legal or administrative proceeding arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances;

(c) except where any of the following would not have a material adverse effect on the business, assets, or financial condition of Target, (i) no portion of the property of Target has been used for the handling, manufacturing, processing, storage or disposal of Hazardous Substances except in accordance with applicable Environmental Laws; and no underground tank or other underground storage receptacle for Hazardous Substances is located on such properties; (ii) in the course of any activities conducted by Target no Hazardous Substances have been generated or are being used on such properties except in accordance with applicable Environmental Laws; (iii) there have been no releases (i.e. any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from the properties of Target, which releases would have a material adverse effect on the value of such properties or adjacent properties or the environment; (iv) there have been no releases on, upon, from or into any real property in the vicinity of the real properties of Target which, through soil or groundwater contamination, have come to be located on, and which would have a material adverse effect on the value of, the properties of Target; and (v) in addition, any Hazardous Substances that have been generated on the properties of Target, have been transported in accordance with applicable Environmental Laws; and

(d) none of the properties of Target are currently subject to any applicable environmental cleanup responsibility law or environmental restrictive transfer law or regulation by virtue of the transactions set forth herein and contemplated hereby.

3.15. Labor Relations. Target is in compliance in all material respects with all federal and state laws respecting employment and employment practices, terms and conditions of employment, wages and hours and nondiscrimination in employment, and is not engaged in any unfair labor practice. There is no charge pending or, to the knowledge of Target, threatened against Target alleging unlawful discrimination in employment practices before any court or agency and there is no charge of or proceeding with regard to any unfair labor practice against Target pending before the National Labor Relations Board. There is no labor strike, dispute, slow-down or work stoppage actually pending or to the knowledge of Target threatened against or involving Target. No representation question exists respecting any of the employees of Target. No grievance or arbitration proceeding arising out of or under any collective bargaining agreement is pending against Target and no claim therefor has been asserted. None of the employees of Target is covered by any collective bargaining agreement, and no collective bargaining agreement is currently being negotiated by Target. Except as described on Schedule 3.15 hereto, Target has not experienced any work stoppage or other material labor difficulty during the last five years.

3.16. Contracts. Except for contracts, agreements, or other arrangements that have been fully performed and with respect to which Target has no further obligations or liabilities and except as listed in Schedule 3.16, Target is not a party to or otherwise bound by any agreement, instrument, or commitment that is material to its financial condition, operations, business or assets, and Target is not a party to or otherwise bound by any agreement, instrument, or commitment that may materially and adversely affect its ability to consummate the transactions contemplated hereby, including without limitation any:

(a) agreement for the purchase, sale, lease, or license by or from it of assets, products, or services requiring total payments by or to it in excess of $10,000 in any instance, or entered into other than in the ordinary course of the operation of its business;

(b) agreement or other commitment pursuant to which it has agreed to indemnify or hold harmless any other Person, including without limitation, for any liabilities, penalties, losses, damages, or costs, or expenses related thereto, arising out of or in connection with any presence, use, generation, treatment, storage, transportation, recycling, disposal, or release of any Hazardous Substances;

(c) (i) employment agreement, (ii) consulting agreement, or (iii) agreement providing for severance payments or other additional rights or benefits (whether or not optional) in the event of the sale or other change in control of it;

(d) agreement with any current or former affiliate, stockholder, officer or director of it or with any Person in which, to Target's Knowledge, any such affiliate of it has an interest;

Target has delivered or made available to Parent correct and complete copies (or written summaries of the material terms of oral agreements or understandings) of each agreement, instrument, and commitment listed in Schedule 3.16 hereto, each as amended to date. Each such agreement, instrument, and

commitment is a valid, binding and enforceable obligation of Target, and, to the Knowledge of Target, of the other party or parties thereto, subject as to enforcement to the Enforcement Exceptions, and is in full force and effect. Neither Target nor, to its Knowledge, any other party thereto, is in breach of or noncompliance with any term of any such agreement, instrument, or commitment (nor to the Knowledge of Target is there any reasonable basis for any of the foregoing), except where any such breach or non-compliance would not have a material adverse effect on the business, assets, or financial condition of the Target. No agreement, instrument, or commitment listed in Schedule 3.16 hereto, includes or incorporates any provision, the effect of which could reasonably be expected to enlarge or accelerate any of the obligations of Target or to give additional rights to any other party thereto, or to terminate, lapse, or in any other way be affected, by reason of the transactions contemplated by this Agreement.

3.17. Intellectual Property. Schedule 3.17 contains an accurate and complete list of all patents, patent applications, trademarks, tradenames, service marks, logos, copyrights, and licenses known to be used in or necessary to Target's business as now being conducted (collectively, and together with any technology, know-how, trade secrets, processes, formulas and techniques used in or necessary to its business, the "Intellectual Property"). Target owns, or is licensed or believes to otherwise have the full unrestricted right to use, all Intellectual Property used in or necessary to its business, and no other intellectual property rights, privileges, licenses, contracts, or other instruments, or evidences of interests are believed necessary to the conduct of its business as currently conducted, with only such exceptions as have no material adverse effect on its business condition (financial or otherwise), or its prospects.

In any instance where Target's rights to Intellectual Property arise under a license or similar agreement, this is indicated in Schedule 3.17 and such rights are licensed exclusively to it, except as indicated in Schedule 3.17. Except as indicated in Schedule 3.17, it has no knowledge of any obligation to compensate any other Person for the use of any Intellectual Property. Schedule 3.17 lists every instance in which it has granted to any other person any license or other right to use in any manner any of the Intellectual Property, whether or not requiring the payment of royalties (other than commercial licenses of software entered into in the ordinary course of business). No other person has an interest in or right or license to use any of its Intellectual Property. To the best of Target's knowledge, none of its Intellectual Property (except patent applications) is being infringed by others, or is subject to any outstanding order, decree, judgment, or stipulation. Except as set forth in Schedule 3.17, no litigation (or other proceedings in or before any court or other governmental, adjudicatory, arbitral, or administrative body) relating to its Intellectual Property is pending, or to the best of its knowledge, threatened, nor, to the best of its knowledge, is there any basis for any such litigation or proceeding. No litigation (or other proceedings in or before any court or other governmental, adjudicatory, arbitral, or administrative body) charging Target with infringement of any patent, trademark, copyright, or other proprietary right is pending, or to the best of Target's knowledge, threatened, nor, to the best of Target's knowledge, is there any basis for any such

litigation or proceeding. Target maintains reasonable security measures for the preservation of the secrecy and proprietary nature of such of its Intellectual Property as constitutes trade secrets.

3.18 Insurance. Schedule 3.18 lists the policies of theft, fire, liability (including products liability), worker's compensation, life, property and casualty, directors' and officers', and other insurance owned or held by it. Such policies of insurance are maintained with financially sound and reputable insurance companies, funds, or underwriters, are of the kinds and cover such risks, and are in such amounts and with such deductibles and exclusions, as are consistent with prudent business practice. All such policies are in full force and effect, are sufficient for compliance in all material respects by it with all requirements of law and of all agreements to which it is a party, and provide that they will remain in full force and effect through the respective dates set forth in Schedule 3.18 and will not terminate or lapse or otherwise be affected in any way by reason of the Merger or the other transactions contemplated hereby.

3.19. Governmental Consent, Non-Contravention, etc. Except as described in Schedule 3.19, Target holds no licenses, permits or other authorizations issued by any governmental agency to Target related to its properties or business. No consent, approval or authorization of or registration, designation, declaration or filing with any governmental authority, federal or other, on the part of Target, is required in connection with the Merger or the consummation of any other transaction contemplated hereby, except for the filing of the Certificate of Merger with the Secretary of State of Delaware. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not violate (i) any provision of the charter or by-laws of Target, or (ii) any order, judgment, injunction, award or decree of any court or state or federal governmental or regulatory body applicable to Target.

3.20. Employee Benefit Plans. Target does not maintain or have any obligation to make contributions to, any employee benefit plan (an "ERISA Plan") within the meaning of Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or, except as set forth on Schedule 3.20 hereto, any other retirement, profit sharing, stock option, stock bonus or employee benefit plan (a "Non-ERISA Plan"). Target has heretofore delivered to Parent true, correct and complete copies of each Non-ERISA Plan. All such Non-ERISA Plans have been maintained and operated in all material respects in accordance with all federal, state and local laws applicable to such plans, and the terms and conditions of the respective plan documents.

3.21. Potential Conflicts of Interest. Except as set forth on Schedule 3.21, no officer or director of Target (i) owns, directly or indirectly, any interest in (excepting not more than 1% stock holdings for investment purposes in securities of publicly held and traded companies) or is an officer, director, employee or consultant of any Person which is a lessor, lessee, customer or supplier of Target; (ii) owns, directly or indirectly, in whole or in part, any tangible or intangible property which Target is using or the use of which is necessary for the business of Target; or (iii) has any cause of action or other claim whatsoever against, or owes any amount to, Target, except for claims in the ordinary course of business,

such as for accrued vacation pay, accrued benefits under employee benefit plans and similar matters and agreements.

3.22. Brokers. Except as set forth on Schedule 3.22, no finder, broker, agent or other intermediary has been retained or utilized by, or has acted for or on behalf of, Target in connection with the negotiation or consummation of the transactions contemplated hereby.

3.23. Compliance with Other Instruments, Laws, etc. Target has complied in all material respects with, and is in compliance in all material respects with, (i) all laws, statutes, governmental regulations and all judicial or administrative tribunal orders, judgments, writs, injunctions, decrees or similar commands applicable to its business, (ii) all unwaived terms and provisions of all contracts, agreements and indentures to which Target is a party, or by which Target or any of its properties is subject, and (iii) its charter and by-laws, each as amended to date, except where any such failure to comply would not have a material adverse effect on the business, assets or financial condition of Target. Except as described on Schedule 3.23, Target does not have or need any licenses, permits or other authorizations from governmental authorities for the conduct of its business or in connection with the ownership or use of its properties, except where the failure to have any such license, permit or other authorization would not have a material adverse effect on the business, assets or financial condition of the Target.

3.24. Minute Books. The minute books of Target made available to Acquirer for inspection accurately record therein all actions taken by Target's Board of Directors and shareholders.

3.25. Absence of Registration Obligations. Target has no obligation, contingent or otherwise, by reason of any agreement to register any of its securities under the Securities Act.

3.26. Ownership of Parent Common Stock. As of the date hereof the Target (i) does not beneficially own, directly or indirectly, and (ii) is not a party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of capital stock of Parent, which in the aggregate represent 5% or more of the outstanding shares of capital stock of Parent entitled to vote generally in the election of directors.

3.27. Full Disclosure. To the best of its Knowledge and belief, no representations or warranties of Target herein or in the Schedules hereto are materially misleading.

4. Representations and Warranties of Parent and Acquirer. Parent and Acquirer represent and warrant to Target (for the benefit of Target prior to the Effective Date and for the benefit of Target Stockholders after the Effective Date) as follows. For purposes of this Agreement, the term "Knowledge" in relation to Parent or Acquirer means the actual knowledge, after reasonable inquiry, of Kerry P. Gray or Stephen B. Thompson.

4.1. Organization and Standing of Parent and Acquirer. Each of Parent and Acquirer is a corporation duly organized, validly existing and in corporate good standing under the laws of the State of

Delaware, and has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted. Each of Parent and Acquirer has delivered to Target complete and correct copies of its Certificate of Incorporation and By-Laws and all amendments thereto. Parent is duly qualified and in good standing as a foreign corporation in each jurisdiction, if any, in which the character of the properties owned or leased or the nature of the activities conducted by it makes such qualification necessary.

4.2. Corporate Power, Binding Effect. Each of Parent and Acquirer has all requisite corporate power and authority to enter into this Agreement and the Registration Rights Agreement among the Parent and each of the Target Stockholders substantially in the Form of Exhibit C attached hereto (the "Registration Rights Agreement") and to perform all of its agreements and obligations under this Agreement and the Registration Rights Agreement in accordance with their respective terms. Acquirer has all requisite power and authority to enter into the Certificate of Merger and to perform all of its obligations under the Certificate of Merger. This Agreement and the Registration Rights Agreement have been duly authorized by each of Parent's and Acquirer's Board of Directors, has been duly executed and delivered by Parent and Acquirer and constitutes the legal, valid and binding obligations of Parent and Acquirer, enforceable against Parent and Acquirer in accordance with its terms. Neither the execution, delivery or performance by either Parent or Acquirer of this Agreement or the Certificate of Merger or the Registration Rights Agreement, as applicable, in accordance with their respective terms will result in any violation of or default or creation of any lien under, or the acceleration or vesting or modification of any right or obligation under, or in any conflict with, either Parent's or Acquirer's Certificate of Incorporation or by-laws or of any agreement, instrument, judgment, decree, order, statute, rule or regulation binding on or applicable to Parent or Acquirer, except where any of the foregoing would not have a material adverse effect on the business, assets or financial condition of Parent or Acquirer.

4.3. Capitalization. The authorized capital of Acquirer consists of 1000 shares of common stock, par value $.001 per share, all of which shares have been issued to and are owned by Parent as of the date hereof. The authorized capital of Parent consists of 60,000,000 shares of Parent Common Stock, 31,391,324 shares of which are issued and outstanding on the date hereof and 10,000,000 shares of preferred stock, none of which shares are issued and outstanding as of the date hereof. All of such outstanding shares are validly issued and outstanding, fully paid and nonassessable. All shares of Parent Common Stock to be issued to Target Stockholders under this Agreement (including under paragraph 2.1 and paragraph paragraph 2.2) will, when issued, be duly authorized, validly issued, fully paid and nonassessable. Except as set forth in the Parent Reports (as defined below), Parent is neither a party to nor is bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for Parent to issue, deliver or sell, or cause to be issued, delivered or sold any shares of any equity security of Parent or any securities convertible into, exchangeable for or representing the right to subscribe for, purchase or otherwise receive any shares of any equity security of Parent or obligating Parent to grant, extend or enter

into any such subscriptions, options, warrants, calls, commitments or agreements.

4.4. Reports and Financial Statements. Parent has previously furnished to Target complete and accurate copies, as amended or supplemented, of its (i) Annual Reports on Form 10-K for the fiscal years ended 1995 and 1996, together with all exhibits thereto, as filed with the Securities and Exchange Commission (the "Commission"), (ii) proxy statement relating to the Annual Meeting of Stockholders to be held on May 29, 1997, (iii) Quarterly Reports on Form 10-Q, together with all exhibits thereto, as filed with the Commission since December 31, 1996 and (iv) other reports filed by Parent with the Commission since December 31, 1996 (such reports and other filings, together with any amendments or supplements thereto, are collectively referred to herein as the "Parent Reports"). As of their respective dates, the Parent Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited financial statements and unaudited interim financial statements of Parent included in the Parent Reports (i) comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the Commission with respect thereto, (ii) have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods covered thereby (except in the case of quarterly financial statements, as permitted by Form 10-Q under the Exchange Act), (iii) fairly present the financial condition, results of operations and cash flows of Parent as of the respective dates thereof and for the periods referred to therein, and (iv) are consistent with the books and records of Parent. Since December 31, 1996, there has been no material adverse change in the business, assets or financial condition of Parent.

4.5. Government Consents, etc. No consent, approval or authorization of or registration, designation, declaration or filing with any governmental authority, federal or other, on the part of it is required in connection with the Merger or the consummation of any other transaction contemplated hereby, except for the filing of the Certificate of Merger with the Secretary of State of Delaware. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not violate (i) any provision of the charter and by-laws of Parent or Acquirer, or (ii) any order, judgment, injunction, award or decreed of any court or state or federal governmental or regulatory body applicable to Parent or Acquirer.

4.6. Brokers. Neither Parent nor Acquirer has retained, utilized or been represented by any broker or finder in connection with the negotiation or consummation of this Agreement or the transactions contemplated hereby.

4.7. Full Disclosure. To the best of its knowledge and belief, no representations or warranties of Parent or Acquirer herein or in the Schedules hereto are materially misleading.

5. Conduct of Target Business Prior to Effective Date.

Target covenants and agrees that, from and after the

date of this Agreement and until the Effective Date, except as otherwise provided herein or specifically consented to or approved by Parent in writing:

5.1. Full Access. Target shall afford to Parent and Acquirer and their authorized representatives full access during normal business hours and with reasonable advance notice to all properties, books, records, contracts and documents of Target and a full opportunity to make such investigations as they shall reasonably desire to make of Target, and the Target shall furnish or cause to be furnished to Parent and Acquirer and their authorized representatives all such information with respect to the affairs and businesses of Target as Parent or Acquirer may reasonably request.

5.2. Carry on in Regular Course. Target shall use commercially reasonable efforts to preserve all of its accounting and business records, corporate records, trade secrets and proprietary information and other Intellectual Property for the benefit of the Surviving Corporation.

5.3. No Dividends, Issuances, Repurchases, etc. Target shall not declare or pay any dividends (whether in cash, shares of stock or otherwise) on, or make any other distribution in respect of, any shares of its capital stock, or, except as set forth on Schedule 5.3, issue, purchase, redeem or acquire for value any shares of its capital stock, or issue any options, warrants or other rights to acquire shares of its capital stock or securities exchangeable for or convertible into shares of its capital stock, except for the issuance of shares of capital stock of Target upon the exercise of options or warrants outstanding on the date hereof or upon the conversion of convertible promissory notes outstanding on the date hereof as provided in paragraph 2.1(e) and paragraph 7.9 of this Agreement.

5.4. No General Increases. Target shall not grant any increases in the rates of pay to its employees, consultants or officers nor by means of any bonus, insurance, pension or stock option or other benefit plan or other contract or commitment increase in any amount the benefits or compensation of any such person, including without limitation, by adding or increasing any benefits payable or contingent upon the Merger.

5.5. Contracts and Commitments. Target shall not enter into any contract or commitment or engage in any transaction not in the usual and ordinary course of business and consistent with its normal business practices, including without limitation, any contract or commitment relating to Target's Intellectual Property.

5.6. Sale of Capital Assets. Target shall not (i) sell, lease as lessor, license as licensor, or otherwise dispose of any capital asset with a market value in excess of $10,000, or of capital assets of market value aggregating with respect to Target taken as a whole in excess of $10,000, (ii) sell, lease as lessor, license as licensor, or otherwise dispose of any asset other than in the ordinary course of business; provided, that Target shall not license any of Target's Intellectual Property, (iii) borrow money, (iv) incur or pay any material liability other than in the ordinary course of business, or (v) guarantee or otherwise incur any material liability with respect to the obligation of any other Person.

5.7. Preservation of Organization. Target shall use commercially reasonable efforts to preserve for Parent and Acquirer the present relationships with suppliers and others having business relations with Target. Target shall not amend its Certificate of Incorporation or by-laws. Target shall not merge or consolidate with any other corporation, or acquire any stock of, or, except in the ordinary course of business, acquire any assets or property of any other business entity whatsoever.

5.8. No Default. Target shall not do any act or omit to do any act, or permit any act or omission to act, which will cause a material breach of any contract, commitment or obligation of Target, except where any of the foregoing would not have a material adverse effect on the business, assets or financial condition of Target.

5.9. Compliance with Laws. Target shall duly comply with all laws, regulations and orders applicable with respect to its business, except where any of the foregoing would not have a material adverse effect on the business, assets or financial condition of Target.

5.10. Advice of Change. Target shall promptly advise Parent in writing of any development or change in circumstance (including any litigation to which it may become a party or of which it may gain Knowledge) that does or could reasonably be expected to (i) call into question the validity of this Agreement or any action taken or to be taken pursuant hereto, (ii) adversely affect the ability of the parties to consummate the transactions contemplated hereby, or (iii) have any material adverse effect on the business, financial condition, or assets of Target.

5.11. Stockholders Meeting; No Shopping, etc. Target shall call a special meeting of the Target Stockholders to consider and vote upon the approval of this Agreement and the Merger and the other transactions contemplated hereby. Target shall recommend to its stockholders the approval of this Agreement and the Merger and the other transactions contemplated hereby and shall use its best efforts to solicit and obtain the requisite vote of approval and Target shall not solicit from any person or otherwise encourage or support any person in making any offers, inquiries or proposals relating to the acquisition of any securities or assets of Target or any merger with Target and will not supply to any person any non-public information concerning Target for any such purpose or with any such likely effect.

5.12. Consents of Third Parties. Target shall use commercially reasonable efforts to secure, before the Closing Date, the consent, in form and substance satisfactory to Parent and Parent's counsel, to the consummation of the transactions contemplated by this Agreement, by each party to any contract, commitment or obligation of Target, in each case under which such consent is required.

5.13. Satisfaction of Conditions Precedent. Target shall use commercially reasonable efforts to cause the satisfaction of the conditions precedent contained in paragraphs 7 and 8 hereof.

6. Conduct of Parent Business Prior to Effective Date.

Parent covenants and agrees that, from and after the date of this Agreement and until the Effective Date, except as otherwise provided herein or specifically consented to or approved by Target in writing:

6.1. Compliance with Laws. Parent shall duly comply with all laws, regulations and orders applicable with respect to its business, except where any of the foregoing would not have a material adverse effect on the business, assets or financial condition of Parent.

6.2. Advice of Change. Parent shall promptly advise Target in writing of any development or change in circumstance (including any litigation to which it may become a party or of which it may gain Knowledge) that does or could reasonably be expected to (i) call into question the validity of this Agreement or any action taken or to be taken pursuant hereto, (ii) adversely affect the ability of the parties to consummate the transactions contemplated hereby, or (iii) have any material adverse effect on the business or financial condition of Parent.

6.3. Satisfaction of Conditions Precedent. Parent shall use its best efforts to cause the satisfaction of the conditions precedent contained in paragraphs 7 and 8 hereof.

7. Conditions Precedent to Parent's and Acquirer's Obligations. Notwithstanding the provisions of paragraphs 1 and 2, Parent and Acquirer shall be obligated to perform the acts contemplated for performance by them under paragraphs 1 and 2 only if each of the following conditions is satisfied at or prior to the Closing Date, unless any such condition is waived by Parent and Acquirer:

7.1. Accuracy of Representations and Warranties by Target. The representations and warranties of Target set forth in paragraph 3 of this Agreement (including any schedules thereto) shall be true and correct in all material respects as of the Closing Date with the same force and effect as though made again at and as of the Closing Date, except for changes permitted or required by this Agreement.

7.2. Compliance by Target. Target shall have performed and complied in all material respects with all covenants and agreements contained in this Agreement required to be performed or complied with by it on or before the Closing Date.

7.3. Approval by Stockholders; Delivery of Agreement of Merger. The Target Stockholders shall have authorized and approved this Agreement and the Merger contemplated hereby as required by applicable law and the Certificate of Incorporation and By-laws of Target and Target shall have duly executed and delivered or caused to be duly executed and delivered the Certificate of Merger and the Related Agreements.

7.4. No Restraining Order. No restraining order or injunction or other order issued by any court of competent jurisdiction, or other legal restraint or prohibition shall prevent the consummation of the Merger or other transactions contemplated by this Agreement, and no petition or request for any such injunction or other order shall be pending.

7.5. No Material Change. There shall not have been any material adverse change in the business or assets of Target.

7.6. Officers' Certificates. Target shall have

executed and delivered to Acquirer and Parent at and as of the Closing (i) a certificate, duly executed by Target's President or any Vice President, in form and substance satisfactory to Parent and Parent's counsel, certifying that each of the conditions specified in this paragraph 7 have been satisfied and (ii) a certificate in the form of Exhibit D attached hereto.

7.7. Resignations of Directors and Officers. All of the directors and officers of Target that Parent or the Acquirer have requested resign their positions shall have resigned their positions with Target on or prior to the Closing Date, and prior thereto shall have executed such appropriate documents with respect to the transfer or establishment of bank accounts, signing authority, etc., as Parent shall have requested.

7.8. Opinion of Target's Counsel. Target shall have delivered to Parent and Acquirer an opinion of Perkins Coie, counsel to Target, dated the Closing Date, such opinion to contain customary exceptions, limitations and assumptions, to be based in part on customary certificates of public officials and Target officers, and to be in form and substance reasonably satisfactory to Parent and substantially in the form of Exhibit E attached hereto.

7.9. Exercise and Exchange of Stock Options; Conversion of Convertible Promissory Notes; Release of Claims. Each outstanding stock option, warrant, Claim and other right to acquire the capital stock of Target shall have been exercised, waived or released and/or Target shall have entered into an agreement, satisfactory in form and substance to Parent and its counsel, with each person holding outstanding stock options, warrants, Claims and other rights to purchase shares of the capital stock of Target. Target's Stock Plan shall have been terminated as of the Closing Date and shall be of no further force or effect.

7.10. Liabilities of Target. Other than (i) accounts payable of not more than $700,000; (ii) loans payable of not more than $363,500 (including all principal amounts and accrued interest as of the Closing Date and interest due and payable within thirty (30) days after the Closing Date); and (iii) capital lease obligations on the capital equipment of Target, there shall be no other liabilities shown on the unaudited balance sheet of Target dated the Closing Date, such unaudited balance sheet fairly presenting the financial condition of Target as of such date in all material respects and being acceptable to Parent (the "Target Closing Balance Sheet").

7.11. Tax Opinion. The delivery by Bingham, Dana & Gould LLP to Parent and Acquirer of an opinion, in form and substance reasonably acceptable to Parent and Acquirer, that the Merger is a tax free reorganization under Section 368(a) of the Code.

7.12. Consents. All consents required to be secured by Target pursuant to paragraph 5.12 shall have been secured on or prior to the Closing Date.

7.13. Facility Lease. The Facility Lease by and between Target and David Sabey shall have been terminated and Target shall have no further obligations under any lease.

7.14. Lock-Up Agreement. Medical Innovation Fund II shall have executed and delivered to Parent a Lock-Up

Agreement substantially in the form of Exhibit F attached hereto.

7.15. Employment Agreements. All of the employment and consulting agreements to which Target is a party or to or by which Target is bound (including the agreements with Donald McCarren and Glyn Wilson) shall have been resolved upon terms and conditions acceptable to Parent.

7.16. Proceedings and Documents Satisfactory. All proceedings in connection with the Merger contemplated by this Agreement and the other transactions contemplated hereby and all certificates and documents delivered to Parent or Acquirer pursuant to this paragraph 7 or otherwise reasonably requested by Parent or Acquirer shall be executed and delivered by Target and shall be reasonably satisfactory to Parent, Acquirer and their counsel.

7.17. Private Placement. The issuance of the Parent Common Stock to the Target Stockholders and all holders of Claims shall qualify as a private placement under Regulation D of the Securities Act and shall be exempt from registration under the Federal Securities laws and all state and other securities laws.

7.18. Settlements With Certain Creditors. Target shall have executed settlement and release agreements with each of Donald McCarren, Glynn Wilson, Joseph Daugherty, Grayson, Medical Innovation Partners (and its affiliates), David Sabey and any other creditor reasonably requested by Parent in form and substance satisfactory to Parent providing for the full and final settlement of any claims of such parties against Target and releasing Target from any liabilities incurred prior to the execution of such agreements.

8. Conditions Precedent to Target's Obligations. Notwithstanding the provisions of paragraphs 1 and 2, Target and Target Stockholders shall be obligated to perform the acts contemplated for performance by them under paragraphs 1 and 2 only if each of the following conditions is satisfied at or prior to the Closing Date, unless any such condition is waived by Target:

8.1. Accuracy of Representations and Warranties by Parent and Acquirer. The representations and warranties of Parent and Acquirer set forth in paragraph 4 of this Agreement shall be true and correct in all material respects as of the Closing Date with the same force and effect as though made again at and as of the Closing Date, except for changes permitted or required by this Agreement.

8.2. Compliance by Parent and Acquirer. Parent and Acquirer shall have performed and complied in all material respects with all of the covenants and agreements required to be performed or complied with by them by the Closing Date.

8.3. No Restraining Order. No restraining order or injunction or other order issued by any court of competent jurisdiction, or other legal restraint or prohibition shall prevent the Merger or other transactions contemplated by this Agreement, and no petition or request for any such injunction or other order shall be pending.

8.4. Parent Certificates. Parent shall have delivered to Target (i) a certificate of its President or one of its Vice Presidents dated the Closing Date, in form and substance satisfactory to Target and

Target's counsel, certifying that the conditions set forth in each of paragraphs 8.1, 8.2, and 8.3 have been satisfied, and (ii) a certificate in the form attached hereto as Exhibit G.

8.5. Other Documents. Acquirer shall have duly executed and delivered the Certificate of Merger. Parent shall have duly executed and delivered the Related Agreements.

8.6. Opinion of Parent's Counsel. Parent shall have delivered to Target an opinion of Bingham, Dana & Gould LLP., counsel for Parent and Acquirer, dated the Closing Date, such opinion to contain customary exceptions, limitations and assumptions and to be based in part on customary certificates of public officials and Parent officers, and to be in form and substance reasonably satisfactory to Target and substantially similar to Exhibit H attached hereto.

8.7. Assumption of Guaranty. Parent shall indemnify and hold harmless Medical Innovation Partners and/or Medical Innovation Fund II from all claims, liabilities and costs arising from a claim by the lessor for payment of any amount owing under the guarantee of either with respect to the equipment leases of Target set forth on Schedule 8.7 hereto. The aggregate amounts owing under such leases is approximately $294,000.

9. Confidential Information; No Publicity. Any and all non-public information disclosed by Parent and Acquirer to Target or by Target to Parent or Acquirer as a result of the negotiations leading to the execution of this Agreement, or in furtherance hereof, shall remain confidential and be subject to the Confidentiality Agreement dated March 21, 1996 between Parent and Target. If the consummation of the transactions contemplated by this Agreement does not take place for any reason, each of Parent and Acquirer on the one hand and Target on the other will return promptly all documents containing non-public information relating to the other side.

10. Securities Laws Matters. Target agrees to cooperate with Parent and Acquirer in qualifying the issue of Parent Common Stock to the Target Stockholders under paragraph 4(2) and/or Regulation D of the Commission under the Securities Act and in complying with all state and other securities laws in respect thereto. Neither Target nor any of its agents is or shall be authorized to act on Parent's or Acquirer's behalf with respect to any aspect of the transactions contemplated by this Agreement or make any solicitations of or representations to any of the Target Stockholders on Parent's or Acquirer's behalf. Neither this Agreement nor any other by Parent or Acquirer shall be deemed an offer with respect to Parent Common Stock.

11. Survival and Materiality of Representations. Each of the representations and warranties made by the parties hereto shall survive the Closing Date and Effective Date and consummation of the transactions contemplated hereby. Notwithstanding the foregoing, the representations and warranties of the parties hereto shall expire and have no further force or effect on the date that is eighteen (18) months after the Effective Date or following any final arbitration award or determination without appeal regarding the Milestones pursuant to paragraph 2.2(i) hereto with respect to any claim made within such eighteen (18) month period. Any claims made under or with respect to such

representations and warranties on or before the date that is eighteen (18) months or such later date after the Effective Date shall survive until, and only for purposes of, resolution of such claims.

12. Tax Consequences to the Parties. Parent and Acquirer, on the one hand, and Target, on the other, understand and agree that neither Parent and Acquirer, on the one hand, nor Target, on the other, are making any representation or warranty as to the tax consequences of this Agreement and the events and actions contemplated hereby. Nonetheless, all parties hereto agree to report the transactions contemplated hereby on their respective federal income tax returns as a tax-free reorganization under paragraph 368(a) of the Code and to take no action inconsistent with such characterization.

13. Termination; Liabilities Consequent Thereon. This Agreement, the Related Agreements and (if executed) the Certificate of Merger may be terminated and the Merger contemplated hereby abandoned at any time prior to the Effective Date (whether before or after approval of the Merger by the Target Stockholders or by Parent as sole stockholder of Acquirer) only as follows:

(a) by Parent or Acquirer, upon notice to Target if (i) Target shall be in material breach of its obligations hereunder and shall not have cured such breach within a period of ten (10) days after written notice from Parent or Acquirer or (ii) if the conditions set forth in paragraph 7 shall not have been satisfied, or waived by Parent, on or prior to June 4, 1997 or (iii) a material adverse change in any representation or warranty made by Target herein or (iv) any material adverse change in the business or operations of the Target; or

(b) by Target, upon notice to Parent, if (i) Parent or Acquirer shall be in material breach of its obligations hereunder and shall not have cured such breach within a period of ten (10) days after written notice from Target or (ii) if the conditions set forth in paragraph 8 shall not have been satisfied, or waived by Target, on or prior to June 4, 1997 or (iii) a material adverse change in any representation or warranty made by Parent or Acquirer herein or (iv) any material adverse change in the business or operations of Parent; or

(c) at any time by mutual agreement of the Boards of Directors of Parent and Target.

If this Agreement is terminated by Target other than pursuant to paragraph 13(b) or paragraph 13(c), then the Target shall pay Parent a break up fee of $250,000. If this Agreement is terminated by Parent and Acquirer other than pursuant to paragraph 13(a) or paragraph 13(c), then Parent shall pay Target a break up fee of $150,000 in addition to the $100,000 nonrefundable advance previously made to Target.

14. Indemnification.

14.1. By Target's Stockholders.

(a) If the Closing occurs, the Target Stockholders and all Claim holders, jointly and severally (the "Indemnifying Parties"), agree to indemnify and hold Parent and Acquirer and their respective directors, officers, employees, shareholders and affiliates (the "Indemnified Parties") harmless from and with respect

to all Damages related to or arising out of (i) any failure or any breach of any representation or warranty of Target, (ii) any failure to perform any covenant, obligation, undertaking or agreement of Target or any Target Stockholder contained in this Agreement (including any Schedules hereto); provided, however, that the obligation of any Target Stockholder or Claim holder under this pargraph 14.1(a) shall not exceed an amount equal to the fair market value (as of the date of payment) of Parent Common Stock which is represented by the sum of the fair market value (as of the date of payment) of the following categories of Parent Common Stock held by Target Stockholders (x) Parent Common Stock which has not become vested and paid pursuant to the terms of Sections 2.1 and 2.2 herein or, (y) Parent Common Stock which has become vested and paid but as of the time of any claim have not been registered by Parent pursuant to the Registration Rights Agreement, or (z) Parent Common Stock which has become vested but as of the time of any claim remains subject to the Lock-Up Agreement; provided, that no shares of Parent Common Stock shall be counted more than once in connection with such calculation. Any liquidated claim of indemnity hereunder shall be payable by the Indemnifying Parties solely in kind in Parent Common Stock from the categories set forth in the preceding sentence. Parent Common Stock shall be applied to any such liquidated claim based on its fair market value (as of the date of payment) in order of priority from category (y) first, then category (z) after all the Parent Common Stock in category (y) has been applied, and finally to category (x) after all Parent Common Stock in categories (y) and (z) has been applied.

(b) The adoption of this Agreement and the approval of the Merger by the Target Stockholders shall constitute approval by the Target Stockholders of all of the arrangements relating hereto and thereto, including without limitation, (i) the appointment of the Representatives (as hereinafter defined) and (ii) the authority of the Representatives to defend and/or settle any claims for which the Target Stockholders may be required to indemnify the Indemnified Parties pursuant to this paragraph 14. All decisions and actions by the Representatives shall be binding upon all Target Stockholders and no Target Stockholder shall have the right to object, dissent, protest or otherwise contest the same.

(c) The Parent, Acquirer and/or their agents have completed a due diligence investigation of the Target's assets, contracts and business for their own purposes to determine the Parent's and Acquirer's willingness to enter into the transactions contemplated by this Agreement. The representations, warranties or indemnification obligations of Target and its shareholders shall not be deemed waived or otherwise limited in any manner by any such investigation; provided, however, if the Parent or Acquirer gains any specific actual knowledge of a specific breach of any of the Target's representations or warranties (and not a mere awareness of a set of circumstances which later manifests itself as a breach) prior to the Closing, which specific actual knowledge is able to be demonstrated by written evidence that was delivered to the Chief Executive Officer or Chief Financial Officer of Parent prior to the Effective Date, Parent and Acquirer shall be deemed to have waived such breach if Parent and Acquirer proceed to close the transactions contemplated hereby. Notwithstanding the foregoing, no knowledge of any person may be imputed to either

the Chief Executive Officer or Chief Financial Officer.

14.2. Method of Asserting Claims.

(a) All claims for indemnification by an Indemnified Party pursuant to this paragraph 14 shall be made in accordance with the provisions of this Agreement.

(b) The Indemnified Parties shall give prompt written notification to the Representatives of the commencement or threatened commencement of any action, suit or proceeding (and the facts constituting the basis therefor) or any other basis for which indemnification pursuant to this paragraph 14 may be sought (an "Indemnification Notice"). In the event of any such claim for indemnification hereunder, the notice shall specify, if known, the amount or an estimate of the amount of the liability arising therefrom.

(c) Within thirty (30) days after delivery of such notification, the Representatives may, upon written notice thereof to the Indemnified Parties, assume control of the defense of any action, suit or proceeding brought by any person other than the Indemnified Parties with counsel reasonably satisfactory to the Indemnified Parties. If the Representatives do not so assume control of such defense, the Indemnified Parties shall control such defense. The party not controlling such defense may participate therein at its own expense; provided that if the Representatives assume control of such defense and the counsel selected by the Representatives concludes that such counsel has a conflict of interest due to the existence of conflicting or different defenses available to the Indemnifying Parties and the Indemnified Parties with respect to such action, suit or proceeding, the reasonable fees and expenses of one firm of separate counsel for all Indemnified Parties shall be paid by the Indemnifying Parties. The party controlling such defense shall keep the other party advised of the status of such action, suit or proceeding and the defense thereof and shall consider in good faith recommendations made by the other party with respect thereto. The Indemnified Parties shall not agree to any settlement of such action, suit or proceeding without the prior written consent of the Representatives, which shall not be unreasonably withheld. The Representatives shall not agree to any settlement of such action, suit or proceeding without the prior written consent of the Indemnified Parties, which shall not be unreasonably withheld.

14.3. Appointment of Representatives.

(a) Target, Target Stockholders and the Claim holders appoint F. Joseph Daugherty and Robert Nickoloff (the "Representatives" and each a "Representative") to represent the Target Stockholders and the Claim holders for the purposes specified in this Agreement (including acting as a purchaser representative under Regulation D of the Securities Act if necessary).

(b) The Representatives shall not be liable for any error of judgment, or any action taken, suffered or omitted to be taken hereunder except in the case of bad faith, nor shall they be liable for the default or misconduct of any employee, agent or attorney appointed by them who shall have been selected with reasonable care. The Representatives may consult with counsel of their own choice and shall have full and complete authorization and protection for any action

taken or suffered by them hereunder in good faith or in accordance with the opinion of such counsel.

(c) The Representatives (or any successor Representatives hereunder) may at any time resign and be discharged of the duties imposed hereunder by giving at least fifteen (15) days' prior notice to the Target Stockholders and Claim holders, in which event, or upon the death or legal disability of any Representative, the Target Stockholders shall appoint a successor Representative by written consent of the holders of a majority of the capital stock of Target at the Effective Date ("Pro Rata Shares").

(d) All actions of the Representatives under this paragraph 14 may be taken by either Representative individually or both Representatives jointly, except that each Representative agrees not to take any action singly unless it is impracticable under the circumstances to first consult with the other Representative.

15. Expenses. All expenses incurred by Target or any Target Stockholder in connection with the preparation and execution of this Agreement and the other agreements contemplated hereby and the consummation of the transactions contemplated hereby and thereby, including any expenses of finders, brokers, attorneys or the like, including any fees or expenses of Grayson, shall be borne by Target or the Target Stockholders, as the case may be, and shall be paid in accordance with the payment priorities set forth in Section 2.2(c). All expenses incurred by Parent or Acquirer shall be borne by Parent.

16. Certain Definitions.

As used herein the following terms not otherwise defined have the following respective meanings:

"Indebtedness" (a) All indebtedness for borrowed money, whether current or long-term, or secured or unsecured, (b) all indebtedness of the deferred purchase price of property or services represented by a note or security agreement, (c) all indebtedness created or arising under any conditional sale or other title retention agreement (even though the rights and remedies of the seller or lender under such agreement in the event of default may be limited to repossession or sale of such property), (d) all indebtedness secured by a purchase money mortgage or other lien to secure all or part to the purchase price of property subject to such mortgage or lien, (e) all obligations under leases that have been or must be, in accordance with GAAP, recorded as capital leases in respect of which it is liable as lessee, (f) any liability in respect of banker's acceptances or letters of credit, and (g) all indebtedness of Target, the Target Stockholders or any other Person that is guaranteed by Target or that Target has agreed (contingently or otherwise) to purchase or otherwise acquire or in respect of which Target has otherwise assured a creditor against loss.

"Person": means any natural person, entity, or association, including without limitation any corporation, partnership, limited liability company, government (or agency or subdivision thereof), trust, joint venture, or proprietorship.

"Related Agreements": means the Escrow Agreement, the License Agreements, the Lock-Up Agreement and the Target Stockholder Representation Certificates.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

"Tax": Any federal, state, local, or foreign income, gross receipts, franchise, estimated, alternative minimum, add-on minimum, sales, use, transfer, registration, value added, excise, natural resources, severance, stamp, occupation, premium, windfall profit, environmental, customs, duties, real property, personal property, capital stock, intangibles, social security, unemployment, disability, payroll, license, employee, or other tax or levy, of any kind whatsoever, including any interest, penalties, or additions to tax in respect of the foregoing.

"Tax Return": Any return, declaration, report, claim for refund, information return, or other document (including any related or supporting estimates, elections, schedules, statements, or information) filed or required to be filed in connection with the determination, assessment, or collection of any Tax or the administration of any laws, regulations, or administrative requirements relating to any Tax.

17. Miscellaneous Provisions.

17.1. Amendments. This Agreement may be amended in any manner and at any time prior to the submission of this Agreement to the Target Stockholders and, after such submission, may be amended to extend the Closing Date and termination date referred to in paragraph 13 or to make other amendments which, in the opinion of the respective counsel for Parent and Target, do not substantially alter the terms hereof, by written instrument stating that it is an amendment of this Agreement executed by Parent, Acquirer and Target and approved by the Boards of Directors of Acquirer and Target.

17.2. Notices and Representatives. Any notice expressly provided for under this Agreement shall be in writing, shall be given either manually or by written telecommunication, fax or mail, and shall be deemed sufficiently given when received by the party to be notified at its address set forth below or if and when mailed by registered mail, postage prepaid, addressed to such party at such address. Any party and any representative designated below may, by notice to the others, change its address for receiving such notices.

Address for notices to Parent and Acquirer:

ACCESS Pharmaceuticals, Inc.
2600 N. Stemmons Frwy, Suite 176
Dallas, TX 75207-2107
Attn: Kerry P. Gray, President
Fax: (214) 905-5101
Phone: (214) 905-5100

with a copy to:

John J. Concannon III, Esq.
Bingham, Dana & Gould LLP
150 Federal Street
Boston, MA 02110
Fax: (617) 951-8736
Phone: (617) 951-8000

Address for notices to Target, Target Stockholders and any Claim holder:

Timothy Maudlin
Medical Innovation Partners
9900 Bren Road East
Suite 421
Minnetonka, MN 55343
Fax: (612) 931-0003
Phone: (612) 931-0154

with a copy to:

David M. Williamson, Esq.
Perkins, Coie
One Bellevue Center
Suite 1800
411 108th Avenue, N.E.
Bellevue, WA 98004
Fax: (206) 453-7350
Phone: (206) 453-6980

17.3. Assignment and Benefits of Agreement. This Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors, but may not be assigned by any of the foregoing without the written consent of the others. Except as aforesaid, nothing in this Agreement, express or implied, is intended to confer upon any person other than the parties hereto and Target Stockholders and their said successors and assigns, any rights under or by reason of this Agreement.

17.4. Governing Law. This Agreement shall be construed and enforced in accordance with, and rights of the parties shall be governed by, the internal laws of the State of Delaware (without reference to principles of conflicts or choice of law that would cause the application of the internal laws of any other jurisdiction).

17.5. SUBMISSION TO JURISDICTION; WAIVERS. PARENT AND EACH OF THE TARGET STOCKHOLDERS (BY APPROVAL OF THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY), FOR ITSELF AND ON BEHALF OF ITS SUCCESSORS, ASSIGNS AND TRANSFEREES, HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(i) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NONEXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATES OF TEXAS AND WASHINGTON, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE DISTRICTS OF TEXAS AND WASHINGTON, AND APPELLATE COURTS FROM ANY THEREOF;

(ii) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS, AND WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME;

(iii) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED NAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, AT ITS ADDRESS AS PROVIDED IN PARAGRAPH 17.2 HEREOF OR AT SUCH OTHER ADDRESS AS IT SHALL HAVE NOTIFIED EACH OF THE OTHER PARTIES HERETO IN THE MANNER PROVIDED IN PARAGRAPH 17.2 HEREOF;

(iv) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW; AND

(v) WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND FOR ANY COUNTERCLAIM THEREIN.

17.6. Counterparts. This Agreement may be executed by the parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

17.7. Section Headings. All enumerated subdivisions of this Agreement are herein referred to as "pargraph." The headings of sections or subsections are for reference only and shall not limit or control the meaning thereof.

17.8. Public Statements or Releases. The parties hereto each agree that no party to this Agreement shall make, issue or release any public announcement, statement or acknowledgment of the existence of, or reveal the status of, the transactions provided for herein, without first obtaining the consent of the other parties hereto. Nothing contained in this paragraph 17.8 shall prevent any party from making such public announcements as such party may consider necessary in order to satisfy such party's legal or contractual obligations.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as an instrument under seal as of the date and year first above written.

PARENT:

ACCESS Pharmaceuticals, Inc.

By: /s/ Kerry P. Gray
- ----------
President & Chief Executive Officer

ACQUIRER:
ACCESS Holdings, Inc.

By: /s/ Kerry P. Gray
- ----------
President & Chief Executive Officer

TARGET:

Tacora Corporation

By: /s/ F. J. Daugherty
- ----------
Title: Chairman

TARGET STOCKHOLDERS

Medical Innovation Fund II

By: /s/ Timothy I Maudlin
- ----------
Title: General PArtner of its General Partner

Acknowledged and Agreed for the purpose of being bound

by any terms of this Agreement relating to the agreements, obligations and covenants of the Representatives:

/s/ F. J. Daugherty
- ----------
F. Joseph Daugherty

/s/ Robert Nickoloff
- ----------
Robert Nickoloff

EXHIBITS
A - Certificate of Merger
B - Research and Development Commitment
C - Registration Rights Agreement
D - Officers' Certificate and Secretary's Certificate - Tacora
E - Form of Perkins Coie Opinion
F - Lock-up Agreement
G - Officer's Certificate and Secretary's Certificate - Parent and Holdings
H - Form of Bingham Dana & Gould Opinion

EXHIBIT 21
Subsidiaries of the Registrant

Tacora Corporation, a Delaware company

EXHIBIT 23.1

Independent Auditors' Consent

The Board of Directors and Stockholders
of Access Pharmaceuticals, Inc.

We consent to the incorporation by reference in Registration Statement Nos. 33-42052, 33-32137 and 33-22750 on Form S-3 and in Registration Statement Nos. 33-10626 and 33-41134 on Form S-8 of Access Pharmaceuticals, Inc. (formerly Chemex Pharmaceuticals, Inc.) of our report dated March 24, 1998, relating to the consolidated balance sheets of Access Pharmaceuticals, Inc. and subsidiary as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997, which report appears in the December 31, 1997 annual report on Form 10-K of Access Pharmaceuticals, Inc.

Our report dated March 24, 1998, contains an explanatory paragraph that states that the Company has suffered recurring losses from operations and has a net capital deficiency, which raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG Peat Marwick LLP
- ----------
KPMG Peat Marwick LLP

Dallas, Texas
March 24, 1998

EXHIBIT 23.2

Consent of Independent Auditors

The Board of Directors and Stockholders
of Access Pharmaceuticals, Inc.

We consent to the incorporation by reference of our report dated September 21, 1995, relating to statements of operations, stockholders' equity and cash flows for the period February 24, 1988 (inception) through December 31, 1994 which report appears in the December 31, 1997 annual report on Form 10-K of Access Pharmaceuticals, Inc.

/s/ Smith Anglin & Co.
- ----------
Smith Anglin & Co.
Dallas, Texas
March 27, 1998

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