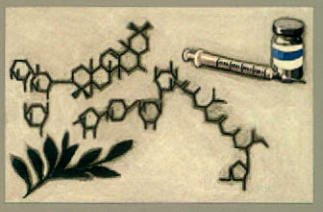
Cambridge Biotech Corporation

Annual Report 1991

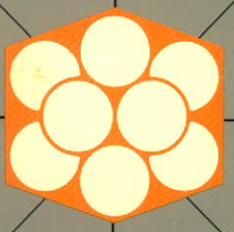


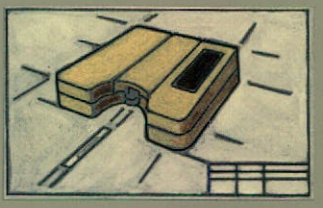
Vaccine and Adjuvant Technology

Direct U. S. Sales

Veterinary Applications

Worldwide Distribution

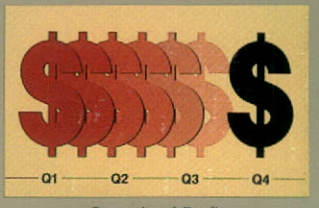




Product Development

Clinical Trials

Internal Research



Operational Profit

Breaking New Ground

Business Profile

Cambridge Biotech Corporation is a leader in the development of recombinant technology and a major producer of viral diagnostic screening and confirmatory products. The Company utilizes recombinant technology in the development and production of antigens, and also develops adjuvants and monoclonal antibodies as the basis for diagnostic, vaccine and therapeutic products for humans and animals.

Selected Financial Data

(in thousands of dollars or shares outstanding)

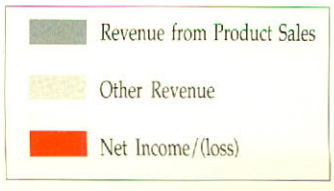
	Year Ended December 31,				
	1991	1990	1989	1988	1987
Operations Data:					
Revenue:					
Product Sales	$17,856	$13,447	$15,190	$11,964	$ 7,947
Research & Development	11,125	8,407	8,053	6,847	5,979
Total Revenue:	$28,981	$21,854	$23,243	$18,811	$13,926
Total Costs & Expenses	30,412	33,800	32,662	26,854	18,283
Net Profit/(loss)	$348	($10,396)	($6,693)	($6,087)	($2,820)
Per Share Data:					
Profit/(loss) per weighted Average Number of Common Shares Outstanding	$0.02**	($0.61)*	($0.41)	($0.40)	($0.21)
Weighted Average Common Shares Outstanding	18,543	16,966	16,858	15,474	13,822
Balance Sheet Data:					
Total Assets	$79,716	$44,268	$56,111	$55,886	$34,788
Long Term Obligations	5,692	5,527	6,242	2,639	2,218
Shareholders' Equity	66,266	32,404	42,642	48,633	29,141

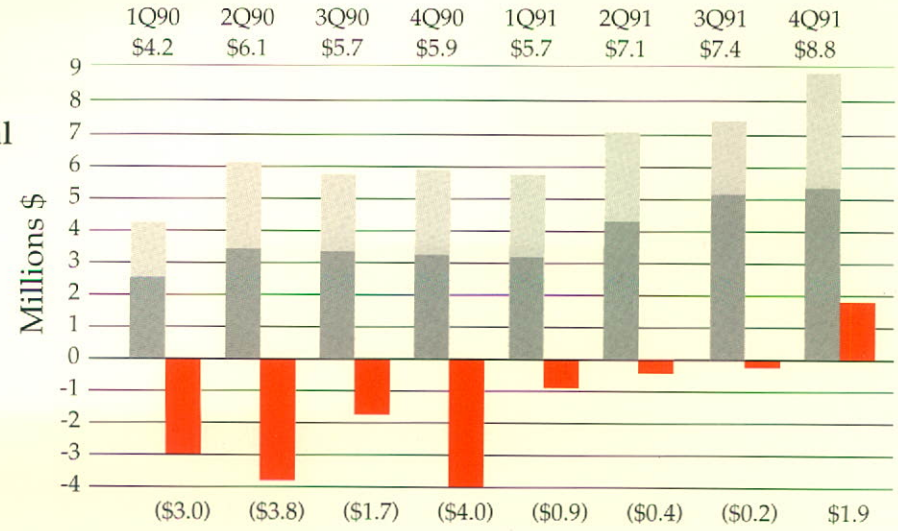
* Reflects one-time merger expenses in connection with the merger of Cambridge BioScience Corporation and Biotech Research Laboratories, Inc., of $2,458,158. Net loss excluding this item is ($7,937,971) or ($0.47) per share.

** Reflects one-time net gain in connection with the sale of DBL stock of $1,390,000. Net loss excluding this item is ($1,042,149) or ($0.06) per share.

Consolidated Historical Quarterly Results

Revenue and Net Income/(loss)
(in millions)

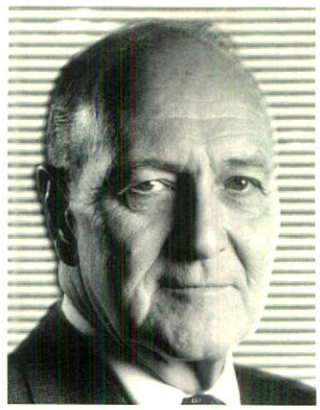




To Our Shareholders:

- *1991 was a year in which your Company broke new ground in a number of critical areas, all of long-term strategic importance.*
- *The segregation of the business into two divisions, diagnostics and biopharmaceuticals, increased focus and brought better direction to our various programs.*
- *The manufacturing capability established at Noctech Limited in Ireland accelerated our product entries into Europe and Africa.*
- *The management team was enhanced by the addition of people with sound industry experience, leading to a strengthening of planning and control systems in all areas.*
- *In the year just past, we achieved the first major milestone. We became profitable. Many factors went into the achievement of this goal. But the contributions made by our employees at all levels was key.*

Dr. Patrick J. Leonard
President and CEO



John S. Scott
Chairman

DIAGNOSTICS

During 1991, the diagnostics product line expanded from 12 to 40 products. This was the result of strategic initiatives taken over the past two years -- the acquisition of technology from Angenics, Inc., the merger with Biotech Research Laboratories, Inc. and the acquisition of Noctech Limited. Consequently, we enter 1992 with a significantly enhanced product base from which to build future sales and profit growth.

In the area of distribution, the worldwide agreement completed with Ortho Diagnostic Systems Inc., the expansion of direct sales activity in the USA, the acquisition of Codiapharm in Switzerland, and the appointment of distributors in most major markets, provided worldwide access to the customer base for our products.

With the acquisition of Noctech in Ireland in April, we became a truly international company. In addition to providing access to a European manufacturing base, the acquisition will enable us to expedite the introduction of new products to the international markets. This is well illustrated by the success, to date, of the Rapid Test Device (RTD) for detection of HIV-1 and HIV-2, which was manufactured in Ireland and introduced to the market in June. Manufacturing activity is currently being expanded to cope with future planned new product introductions in 1992 and beyond.

BIOPHARMACEUTICALS

In the area of biopharmaceuticals, the first major alliance covering veterinary vaccines and diagnostics was established with Pitman-Moore, Inc., a worldwide player in this arena. This alliance will permit Cambridge and Pitman-Moore to work together to evaluate veterinary applications for a variety of Cambridge's developmental products. The Stimulon™ adjuvant, for which broad patents were issued in the year, continues to arouse considerable interest. A growing body of scientific evidence in animal models continues to support the opinion that this could be a very significant factor in the development of new vaccines and immunotherapeutics.

Considerable progress was made during the year in the development of vaccines against Lyme disease in both canines and humans, a feline immunodeficiency virus vaccine for cats, and human vaccines against cytomegalovirus and HIV infections. Another milestone in the development of the adjuvant is anticipated shortly with initiation of the first clinical trial in humans. This is being done in collaboration with Memorial Sloan-Kettering Cancer Center as part of a program to evaluate the adjuvant's utility as an immunotherapeutic against malignant melanoma. Our adjuvant is also being evaluated in the development of a malaria vaccine with the U.S. Army. The growing strength of our technology was further demonstrated in the additional licenses granted during the year and in the growth of our royalty income.

FINANCIAL RESULTS

In 1991, we saw a significant strengthening in the financials of the Company. Total revenues increased 33 percent in 1991 over those of the previous year. Revenues from product sales were up 33 percent over those of 1990. Research and development revenues increased 32 percent from year to year.

Administration: (left to right) Frederick V. Casselman, Vice President, Legal and Regulatory Affairs, General Counsel and Secretary; Susan R. Arntsen, Vice President, Human Resources; Peter P. Hartman, Vice President, Finance and Chief Financial Officer; Dante J. Marciani, Sc.D., Ph.D., Senior Vice President-Chief Scientific Officer (seated).

Research and Development: Charlotte R. Kensil, Ph.D., Section Head, Natural Products Chemistry; Mark J. Newman, Ph.D., Section Head, Virology and Immunobiology; Gerald A. Beltz, Ph.D., R&D Director, Biopharmaceuticals Division.

This aggressive sales growth, plus tight control of expenses, contributed to the dramatic bottom-line turnaround of $10.7 million on a total revenue stream of approximately $29 million.

Realization of revenues from a one-time transaction, and savings resulting from a structural reorganization undertaken in the early part of the year, also contributed to the improvement. This was not achieved at the expense of essential research and development, on which the Company spent in excess of $10 million during 1991.

The cash position of the Company was strengthened by a very successful stock offering in September, which netted $27.1 million. Also, we saw a significant change in the nature of our shareholders with institutional holders now constituting over 23 percent, up from 6 percent of a year ago.

FUTURE OUTLOOK

While much progress was made in 1991, there are still major challenges ahead. If we are to become a truly significant company in the health care arena, we must continue to enhance our diagnostic product portfolio in areas which will support aggressive growth. We will continue to address this area via a strong internal product development effort and technology acquisition when opportune. The recent acquisition of a minority stake in ADI Diagnostics Inc. in Canada, with the option to acquire a controlling interest in the future, gives us access to a complementary line of hepatitis products and a patented line of syphilis products for distribution through our worldwide sales network, as well as giving CBC a vehicle for distributing its existing products in Canada.

We anticipate that the groundwork laid in 1991 in exploring potential relationships between major pharmaceutical companies and our Biopharmaceuticals Division will result in the formation of some key alliances in the coming year. We will continue to invest and

leverage our technical base, exploring new areas which could generate significant new business opportunities. Initial promising results in the area of drug delivery as a spinoff from our adjuvant technology is a good illustration of this approach.

Maintaining a balance between short-term profit and long-term growth objectives is a continuing challenge. While demonstration of steady growth in overall profitability is our prime goal, this will not be achieved by putting at risk programs with significant longer term potential.

Ultimately the success of any business depends on the skills of its employees, and the integration of their skills into a team effort dedicated to achieving shared objectives. We must continue to invest in this, our greatest asset, to ensure that we have the skills base, the management structure, and the support functions in place to meet our growth objectives.

We must also be conscious of our obligations to be good corporate citizens in the communities in which we have a presence. We are committed to a proactive role in working with local communities on programs aimed at improving educational standards in the schools and supporting other community programs.

In summary, 1991 was a year in which we put in place the fundamentals for longer term sustainable growth in revenues and profits. With the continued support of our talented and dedicated employees and staff, we are confident that in the year ahead, we will continue to break new ground.

April 1992
Worcester, Massachusetts

Patrick J. Leonard, Ph.D.
F.R.C. Path.
President and CEO

John S. Scott
Chairman

Manufacturing; (clockwise from top): Stephen D. Hayter, Executive Vice President-General Manager, Americas/Far East Diagnostics Division; Maureen M. Adams, Director of Materials Management; Gary E. Long, Vice President, Operations; Jiri Vystyd, Director of Manufacturing.

Diagnostics

- *Our worldwide diagnostics business now has geographical definition. We have created separate divisions, one covering the Americas and the Far East, the other covering Europe, Africa and the Middle East. We also envision an opportunity to become a more important factor in the veterinary market.*
- *We will continue to develop more advanced, user friendly screening tests.*
- *To get this evolving product portfolio to the marketplace, we have adopted a strategy of accessing different markets through various distributor channels.*
- *In 1991, we established a worldwide multi-year distribution agreement with Ortho Diagnostic Systems Inc., which continues to strengthen and grow. Our own direct sales force in the U.S. has increased during 1991, and should continue to expand further in 1992.*
- *We are expanding our Irish manufacturing facility to serve the high-volume product needs of the Eastern Hemisphere. Rationalization of our North American facilities will also be required to better serve product needs in the rest of the world.*
- *Our goal is to increase both market share and international contribution to Company revenues in the current year.*

Slide Instrument Assay in use. Research Associate Rosemary M. Petrone demonstrates an assay for HIV-1/HIV-2. The test can be interpreted in minutes, either visually (see slides at right), or with the instrument assay's LCD, as shown in inset, top right.

Complementing our screening, confirmatory, and rapid tests for HIV-1, HIV-2, HTLV-I and HTLV-II, we have developed screening and confirmatory tests to detect Lyme disease, and have developed screening tests for a number of gastroenterological infectious diseases. We have recently acquired a line of screening tests commonly described under the acronym "TORCH" -- toxoplasmosis, rubella, chlamydia and herpes -- from an outside manufacturer. Finally, with the recently announced acquisition of a minority stake in ADI Diagnostics Inc., we will add to our product line a series of screening tests for hepatitis and syphilis.

We pioneered Western blot technology as an approved confirmatory diagnosis for AIDS in 1987. We have since applied the technology to other infectious diseases, and continue to be a market leader in confirmatory AIDS tests. We seek to maintain that position with more sophisticated product development aimed at market needs.

One new test we have developed is sensitive to HTLV-I and HTLV-II antibodies. Two other tests, both for Lyme disease, detect early or late stages of the infection.

In June of 1992, the United States will mandate testing the blood supply for HIV-2. Shortly, we will submit a license application to the FDA for our HIV-2 Western blot, positioning us to become the first company to market a confirmatory HIV-2 test.

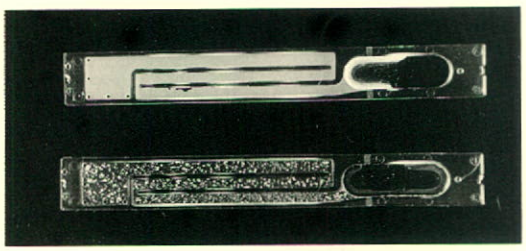
HIV-1/2 RTD; top dot is control; dot at lower left is HIV-1; lower right is HIV-2.

Our screening tests range from rapid screening formats, which give results in ten minutes or less, through the high-volume microwell format, with longer running time but requiring less overall technician time per sample. We will apply these technologies to a variety of other infectious diseases.

Our most recently developed rapid screening tests deliver unequivocal results from a self-contained test device. The Rapid Test Device (RTD) and the Slide Instrument Assay (SIA), both

pictured, take less than ten minutes to run. The RTD, commercially licensed in France, can detect HIV-1 or HIV-2, yielding a color-coded answer for each disease, assisting the physician in making a differential diagnosis. Clinical trials of the RTD in the United States are underway.

The SIA, currently in field trials in Africa, uses our proprietary technology in a self-timed, self-mixing, single reagent assay, interpreted by either visual inspection or a portable photometric



SIA technology uses latex agglutination for visual readouts. Above, negative reaction. Below, positive reaction.

reader. The SIA is easy to use, and can be performed by personnel with minimal technical training.

We are excited about both of these rapid testing formats. They provide us a platform to launch a series of kits that can test concurrently for several diseases.

In 1991, we obtained FDA approval for our screening test for *Clostridium difficile*, a form of colitis that affects one out of ten patients in long-term hospitalization; for every person with the disease, five more are tested. Our test, called Cytoclone[R] A+B, is the only *C. difficile* test on the market that screens for both A and B toxins associated with the disease.

Rockville: Manufacturing Engineer Dave Reed, left, and Technical Supervisor Larnell Sewell operate plate processing machine.

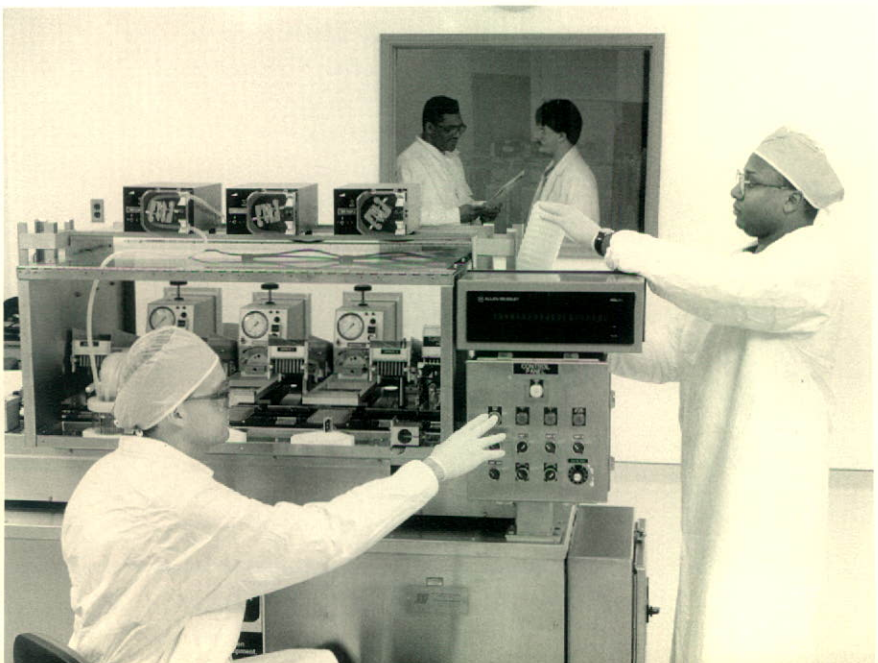
Rockville General Manager David A. Corrado, left, reviews Western blot strip quality control with Anne J. Bodner, Ph.D., Director of Product Development, Rockville, and Steven S. Alexander, Ph.D., Director of Product Technology, Rockville.

We believe that through the development of consistently-performing, diverse, and user-friendly diagnostic tests, we can establish a significant market presence in this growing and competitive field of medicine.

The rapid test market in Europe, Africa and the Middle East is expanding significantly, as is our share of this market. To meet the increasing demand, we will need to enlarge the Galway facility.

Rationalization of our manufacturing activity in North America to meet future product needs is also a priority.

Production Supervisor Margaret Potter processes RTDs at Cambridge's Galway facility, which serves a growing international market for AIDS rapid tests.



Biopharmaceuticals

- *In 1991, our Biopharmaceuticals Division was established as a separate business unit. The division has as its central focus Stimulon™, our proprietary saponin adjuvant technology, for which we were issued a patent in October of 1991.*

- *Stimulon has demonstrated desirable adjuvant characteristics in numerous in-house and independent trials. It is water-soluble, and has proven to be non-toxic in thousands of animals to which it was administered in clinical trials for GenetiVac™ FeLV, the first commercial vaccine in which it became available.*

- *Our broad-based adjuvant patents should present us with significant opportunities in the areas of infectious disease vaccines and immunotherapeutics, both in the human and veterinary fields.*

- *To properly commercialize this potential, we have actively sought partners in the pharmaceutical industry, and we anticipate the forming of new relationships in the future.*

- *Our Biopharmaceuticals Division, with its collaborative partners, is accelerating its critical research programs, and has identified additional opportunities based on saponin.*

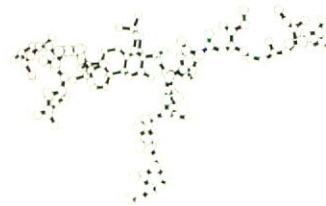
Dr. Charlotte Kensil and Research Associate Sean Soltysik view a high pressure liquid chromatography profile of QS-21. The well-defined spike indicates the molecular purity of the compound, a derivative of saponin extract.

In numerous animal models, and in studies performed both internally and externally, Stimulon has demonstrated the ability to produce not only a high amount of desirable antibodies, but cell-mediated immunity as well. Animals administered Stimulon-adjuvanted viral subunit antigen vaccines have produced cytotoxic T-lymphocytes, or CTLs, which attack infected cells. To the best of our knowledge, no other adjuvant evaluated so far has been able to produce this highly desirable and necessary dual reaction.

This dual reaction results in an immune response that is both aggressive and sustained. A sustainable response is the key to the production of effective vaccines and immunotherapeutic applications.

We are working closely with outside researchers to establish the safety and efficacy of the adjuvant. Serious discussions are also underway with significant players in the vaccine field, companies with the resources to conduct the lengthy clinical trials and evaluations needed to determine the adjuvant's utility.

Through a collaboration with the Memorial Sloan Kettering Cancer Center, our adjuvant is scheduled to begin Phase I human clinical



Molecular model of QS-21.

trials as an immunotherapeutic against malignant melanoma. The human subjects already suffer from this disease; it is hoped that the adjuvant-assisted vaccine will cause their immune systems to defend against the spread of new cancerous cells. It marks the first use of our adjuvant in human applications, after several years of use in a commercial veterinary vaccine.

A collaboration with Walter Reed Army Institute of Research (WRAIR) entails the evaluation of our adjuvant in combination with WRAIR's synthetically-engineered antigens in vaccine candidates against malaria.

Additionally, Cambridge Biotech is working with investigators at

the University of Alabama School of Medicine at Birmingham to develop a vaccine against cytomegalovirus, a serious and sometimes fatal virus affecting children, immunocompromised elderly and AIDS patients. Like measles, it can cause profound birth defects in cases where the mother is infected during pregnancy.

Our strategy to commercialize the adjuvant and our vaccines entails entering into a limited number of alliances with large pharmaceutical companies, who will assist in the product development and take responsibility for clinical trials, regulatory approval and marketing.

In the veterinary area, 1991 saw the signing of a definitive master agreement with Pitman-Moore, Inc., the U.S. distributor of GenetiVac™ FeLV (our recombinant vaccine against feline leukemia virus infection), to potentially develop other veterinary vaccines. First in this line will be a recombinant vaccine against canine Lyme disease, where our progress to date serves as the foundation for our new relationship with Pitman-Moore.

While dogs have not been documented to transmit Lyme disease to humans, the illness can be just as debilitating to the animal and much harder to diagnose. The knowledge gained from the development of a canine Lyme vaccine can be expanded and applied to a human vaccine, and we believe that recombinant technology may afford safe, effective protection, without the potential problems of cross reactivity with human and/or animal proteins found in whole bacterial antigen.

Molecular Biology Section Head Elihu M. Young, Ph.D., at right, confers with Scientist Cheryl Murphy. At rear is Research Associate Deb Davis.

In July, we embarked on a collaboration with Virbac Laboratories SA to develop a recombinant vaccine against feline immunodeficiency virus, or FIV. The vaccine is already in initial trials in Europe. Knowledge gained from the development of this vaccine can be applied to HIV vaccine research.

Our patent position continues to be strong. For example, most of the leaders in AIDS research have taken sublicenses from us for Harvard University's gp120, a critical envelope protein of HIV-1, for use in diagnostics, vaccines, or immunotherapeutic applications. In addition, our broad-based patent claims on the Stimulon adjuvant provide us a significant opportunity in the development of vaccines and immunotherapeutics.

As the Company's strategic alliances grow, the number of possible applications for our adjuvant will also expand. Based on data in hand, we believe the future is bright, and look forward to it with anticipation.

Senior Scientist Jia-Yan Wu analyzes cell cultures on computer.

Financial Review

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

General

During the past two years, the Company has completed strategic transactions to broaden its product line and to expand its domestic and international manufacturing, marketing and distribution capabilities.

The Company purchased the remaining outstanding shares in Noctech Limited in Ireland effective April 5, 1991, having previously held an 18% equity interest. The acquisition of this diagnostic manufacturing company in Ireland was a strategic move to enable the Company to commence manufacturing in Ireland and to penetrate the European test market in a timely and cost effective manner. The impact of this transaction is highlighted in the various sections of the following analysis.

To enhance access to the diagnostic market in Africa and the Middle East, the Company purchased the assets and distribution agreements of Codiapharm S.A. located in Switzerland. The acquisition was completed in November 1991.

In furtherance of its strategy to broaden its markets and product line, the Company has reached a tentative agreement to acquire, for $3,000,000, an approximate 17% interest in ADI Diagnostics Inc. ("ADI"), a Canadian company which develops, manufactures and markets a line of diagnostic products for human infectious disease, including hepatitis A, hepatitis B, chlamydia and syphilis, which is complementary to the Company's product offerings. As part of the transaction, the Company will obtain options to purchase additional shares of ADI from existing ADI shareholders by an exchange of the Company's shares.

Results of Operations

Revenues. Total revenues for 1991 were 33% higher than revenues reported in 1990, and 25% greater than those reported in 1989. The 1990 revenues were 6% lower than those reported in 1989.

Product sales grew 33% in 1991 over 1990, while the 1990 product sales were 11% lower compared to 1989. The primary reason for the reduction in HIV and HTLV products was (1) the assumption by DuPont of contract manufacturing previously performed by the Company's Rockville operations, as well as (2) the assignment of distribution rights from DuPont to Ortho Diagnostic Systems Inc. and the time lag involved while Ortho set its marketing programs in motion.

The 33% increase in product sales during 1991 was a result of significant growth in several key products. Sales of the Lyme Western blot, HIV-1 Western blot, and Recombigen® HIV-1 EIA diagnostic products collectively grew by more than 100% in 1991 over 1990 levels. Growth was further enhanced by the HIV 1/2 RTD sales, a new product introduced to the European market during 1991, which is produced in the Galway, Ireland manufacturing facility. Sales to Ortho continued to increase and were 33% higher than the 1990 level.

Research and development (R&D) revenues grew 32% and 4% for the years of 1991 and 1990 respectively, when compared to 1990 and 1989. R & D revenues grew 32% in 1991 over 1990 as a result of increased participation in longer term research programs sponsored by collaborative partners. Contract revenue remained relatively level for each of the three years from 1989 through 1991.

During 1990, the Company took significant steps to ensure an improved level of sales for HIV, HTLV and other diagnostic products. The Company expanded its relationship with Ortho through an interim agreement to distribute the Company's HIV-1

screening test. This agreement has now been superseded by a multi-year distribution agreement covering both HIV and HTLV screening tests. In addition, the Company acquired an interest in a manufacturing company based in Ireland (Noctech Limited) to better access the European market, which is 35% of worldwide diagnostic product sales, and to more rapidly achieve regulatory approval in Europe of such products. The Company also took steps to improve distribution channels directly in the various European markets. Further, an increased investment was made to expand a U.S. direct sales force to supplement product sales in various niche markets not addressed through the Ortho distribution agreement.

Costs and Expenses. Costs of sales as a percentage of product sales decreased from 63% in 1989 and 66% in 1990 to 52% in 1991. This decrease is primarily due to a change in the mix of products sold and greater production throughput from existing facilities.

R & D costs and expenses of $10.3 million decreased in 1991 as compared to 1990 by 17%, after a 51% increase in 1990 as compared to 1989. The decrease was related to a shift in the Company's focus from the development of numerous products in 1990 to the introduction of these products into the market in 1991.

Selling, general and administrative expenses in 1991 were increased by $660,000 or 7% from 1990 levels to support the 33% increase in product sales. The reduction in 1990 of 32% compared to 1989 is attributable to general and administrative personnel reductions, as well as certain non-recurring charges in 1989 associated with key management changes and costs related to the acquisition of certain assets from Angenics.

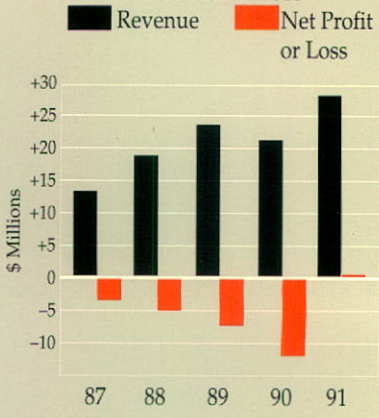
A major contributor to the net loss for 1990 was the one time merger-related and restructuring expenses of almost $2.5 million. These expenses include the external costs associated with the execution of the BTRL merger, as well as severance and placement costs related to the implementation of a more efficient organizational structure. From the start of 1990 to the completion of this restructuring, the work population was reduced by 29%.

Other Income and Expense. In December, the Company sold 2.5 million shares (a 23% share of the business) of Diagnostic Biotechnology, Pte., Ltd. ("DBL"), a private company in Singapore. A gain of $1.4 million was realized as a result of this transaction. The decision was made to dispose of the non-strategic assets and to re-employ the capital in the Company.

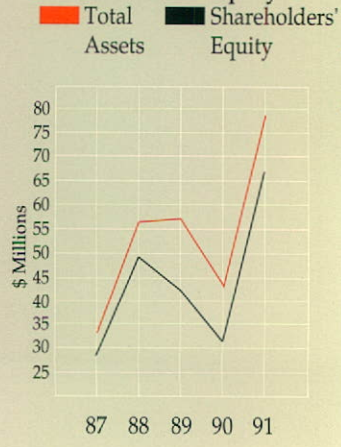
On October 24, 1991, the Company completed a public offering of 3,795,000 shares of common stock at $7.75 per share, which raised net proceeds of $27,136,000. The net proceeds were placed in investment grade, short term securities which yielded a relatively modest return as a result of lower interest rates during the last quarter of 1991. Since this offering's proceeds became available to the Company only in the fourth quarter, the interest income, net of interest expense was approximately $540,000 in 1991 compared to $1,550,000 in 1990. In 1989, interest and other income equaled $2.7 million. The decline from 1989 to 1991 was primarily due to a lower level of funds available for investment.

Net Income (Loss). As a result of the above, the Company had income of $0.02 per share in 1991 versus a $0.61 loss in 1990 and a $0.41 loss in 1989. In 1990, for comparison, the loss was $0.47 per share excluding the merger and restructuring expenses, compared to a $0.05 loss in 1991, excluding the gain on the sale of DBL shares. When viewed on a quarterly basis during 1991, the loss per share improved from $0.05 in the first quarter to $0.01 in the third quarter. Fourth quarter earnings of $0.09 per share consisted of $0.02 from operations and $0.07 from the gain on the sale of DBL stock.

Revenue and Net Profit/Loss



Total Assets and Shareholder Equity



Liquidity and Capital Resources

Investing Activities. Effective September 7, 1990, Cambridge BioScience Corporation merged with Biotech Research Laboratories, Inc. of Rockville, Maryland. During 1991, the Company entered into several agreements which expanded its base of operations. As

mentioned above, on April 5, 1991, the Company purchased the remaining 82% interest in Noctech, Limited, a diagnostic manufacturing company based in Dublin, Ireland, for approximately $6.2 million. The transaction was effected through an exchange of Noctech stock for the Company's common stock. Also, in November 1991, the Company purchased for $1.9 million, certain assets in Codiapharm S.A., a European sales distribution company with significant access to the African market.

Total Assets

	1990	1991
Cash Equivalents & Time Deposits	$11,318	$30,452
Accounts Receivable	6,060	11,383
Inventories & Prepaids	5,695	10,530
Property, Plant & Equipment	17,425	18,131
Technology & Affiliates	3,770	9,220
Total Assets	$44,268	$79,716

Investments were also made which impacted working capital. The most significant was the use of approximately $2.3 million for the purchase of equipment and improvements and $.9 million for the purchase of technology, patents, and patent support.

Liquidity. At December 31, 1991, the Company had working capital of $41.0 million, including cash, cash equivalents and certificates and time deposits of $26.1 million and excluding $4.3 million in certificates and time deposits that the Company has pledged as collateral against an operating lease obligation. Working capital increased $28.4 million over the 1990 level, primarily due to the net proceeds of $27.1 million from the public stock offering and increases in accounts receivable and inventory. The Company's accounts receivables and inventory increased $4.6 million and $5.0 million, respectively, due to higher product sales, increased strategic alliance fees, and the increased inventory levels associated with anticipated 1992 sales levels. The Company's investment of cash from the proceeds of the public offering resulted in an increased investment in short term securities at the end of 1991 of $17.7 million. Cash used in operating activities in 1991 was $4.3 million.

At December 31, 1990, the Company had working capital of $12.6 million, including $6.2 million in cash, cash equivalents and certificates and time deposits, a decrease of $11.6 million (approximately 48%) from $24.2 million at December 31, 1989 and excluding $5.1 million in a certificate of deposit pledged against the operating lease obligation mentioned above. Cash used in operating activities in 1990 was $12.6 million and an additional $2.2 million was spend on capital expenditures. The Company's cash, cash equivalents and certificates and time deposits decreased by $16.0 million during 1990 from 1989 levels.

The Company's accounts receivables were $5.1 million at December 31, 1989 and $6.0 million at December 31, 1990, although total revenue in 1990 decreased six percent. The increase in the accounts receivables in 1990 was mainly attributable to a large receivable from a strategic partner for research and development costs which was outstanding as of December 31, 1990.

The Company will have a $3.7 million balloon payment due in 1994 as a mortgage on one of the Company's facilities matures. The Company anticipates that it will refinance the mortgage in 1994. There is no assurance, however, that if the current depressed real estate market continues through 1994, the Company will be able to negotiate a refinancing of the loan on terms advantageous to the Company.

Although the Company believes that its existing cash and cash equivalents, short-term investments and anticipated revenues will be sufficient to meet its liquidity and capital requirements for the next two years, such funds may not be sufficient to meet the Company's long-term requirements if revenues are lower than anticipated or significant unexpected capital investment is desirable or required to remain competitive in the diagnostic market. Commercialization of the Company's vaccines will require substantial additional funds being sought through collaborative partners. Management's commitment to on-going profitability during 1992 should improve overall cash flow dynamics compared to recent years.

CONSOLIDATED BALANCE SHEETS

ASSETS	DECEMBER 31, 1991	1990
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,727,841	$ 1,447,662
Certificates and time deposits	23,419,707	4,790,185
Accounts receivable - trade (less allowance for doubtful accounts of $58,000 and $90,800)	10,579,891	5,951,169
Other receivables	803,123	108,993
Inventories (Note 3)	10,077,440	4,973,141
Prepaid expenses and other current assets	452,508	722,447
Total current assets	48,060,510	17,993,597
Certificates and Time Deposits (Note 8)	4,304,765	5,080,000
Investment in Affiliate	-	832,928
Property, plant and equipment (Note 4)	18,131,419	17,425,432
Purchased technology and intangibles (net of accumulated amortization of $1,086,900 and $419,200) (Note 5)	8,929,975	2,836,720
Other Assets	289,551	99,601
TOTAL ASSETS	$79,716,220	$44,268,278

LIABILITIES AND SHAREHOLDERS' EQUITY	DECEMBER 31, 1991	1990
CURRENT LIABILITIES:		
Current maturities of long-term obligations (Note 6)	$ 853,812	$ 719,561
Accounts payable and other accrued expenses	5,684,914	3,686,865
Accrued merger and restructuring costs	-	753,704
Deferred gain	384,928	251,286
Income taxes payable	150,000	-
Total current liabilities	7,073,654	5,411,416
DEFERRED GAIN	684,984	926,270
LONG-TERM OBLIGATIONS - Less current maturities (Note 6)	5,691,683	5,526,679
COMMITMENTS AND CONTINGENCIES (Notes 8 and 14)		
SHAREHOLDERS' EQUITY (Note 9):		
Preferred stock, par value $.01 per share: Authorized, 5,000,000 shares		
Common stock, par value $.01 per share: Authorized, 40,000,000 shares		
Issued, 21,983,582 and 16,966,529 shares	219,836	169,665
Additional paid-in capital	103,768,378	70,542,561
Deficit	(37,960,462)	(38,308,313)
Cumulative translation adjustment	238,147	-
Total shareholders' equity	66,265,899	32,403,913
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$79,716,220	$44,268,278

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEARS ENDED DECEMBER 31,		
	1991	1990	1989
REVENUE:			
Product sales	$17,856,167	$13,446,817	$15,189,671
Research and development	11,124,977	8,407,358	8,052,917
	28,981,144	21,854,175	23,242,588
COSTS AND EXPENSES:			
Cost of sales	9,299,506	8,834,708	9,536,170
Research and development	10,336,986	12,392,386	8,181,330
Selling, general and administrative	10,775,189	10,115,077	14,944,201
Merger and restructuring	-	2,458,158	-
	30,411,681	33,800,329	32,661,701
OTHER:			
Interest and other income, net of interest expense	1,928,388	1,550,025	2,740,313
Income (Loss) from Operations Before Income Taxes	497,851	(10,396,129)	(6,678,800)
Provision for Income Taxes	150,000	-	314,000
Net Income (Loss)	$ 347,851	($10,396,129)	($ 6,992,800)
Net Income (Loss) per weighted average number of common shares	$0.02	($0.61)	($0.41)
Weighted average number of common shares outstanding	18,542,849	16,965,624	16,857,798

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deficit	Cumulative Translation Adjustment	Total
BALANCES, JANUARY 1, 1989	16,722,808	$167,228	$ 69,385,102	($20,919,384)	$ -	$48,632,946
Exercises of warrants, options and other shares issued	210,458	2,104	999,957	-	-	1,002,061
Net loss for year	-	-	-	(6,992,800)	-	(6,992,800)
BALANCES, DECEMBER 31, 1989	16,933,266	169,332	70,385,059	(27,912,184)	-	42,642,207
Exercises of warrants, options and other shares issued	33,263	333	157,502	-	-	157,835
Net loss for year	-	-	-	(10,396,129)	-	(10,396,129)
BALANCES, DECEMBER 31, 1990	16,966,529	169,665	70,542,561	(38,308,313)	-	32,403,913
Public offering of common stock	3,795,000	37,950	27,097,645	-	-	27,135,595
Stock issued to acquire Cambridge Biotech Ltd.	1,036,691	10,367	5,396,969	-	-	5,407,336
Exercises of options and other shares issued	185,362	1,854	731,203	-	-	733,057
Net income for year	-	-	-	347,851	-	347,851
Translation adjustment	-	-	-	-	238,147	238,147
BALANCES, DECEMBER 31, 1991	21,983,582	$219,836	$103,768,378	($37,960,462)	$238,147	$66,265,899

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1991	1990	1989
Cash Flows from Operating Activities:			
Net income (loss)	$ 347,851	($10,396,129)	($ 6,992,800)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	4,507,760	2,467,031	2,236,370
Deferred gain	(107,644)	(459,039)	(3,876)
Gain on sale of investment in affiliated company	(1,390,000)	-	-
Changes in assets and liabilities, net of effects of businesses acquired:			
Accounts and other receivables	(4,627,598)	(684,465)	(1,233,587)
Inventories	(4,979,060)	(2,720,178)	(173,916)
Prepaid expenses and other current assets	269,939	(348,865)	229,334
Accounts payable and other accrued expenses	321,808	(161,687)	550,027
Income taxes payable	150,000	(274,750)	301,750
Other noncurrent asssets and liabilities	(189,950)	(10,827)	(221,388)
Net cash used in operating activities	(5,696,894)	(12,588,909)	(5,308,086)
Cash Flows from Investing Activities:			
Certificates and time deposits	(17,698,682)	10,732,446	9,628,447
Proceeds from sale of investment in affiliated company	1,390,000	-	-
Purchases of property, plant and equipment	(2,303,643)	(2,195,768)	(11,683,111)
Purchase of the assets of Angenics, Inc.	-	-	(3,500,000)
Purchase of Codiapharm S.A. assets	(1,893,330)	-	-
Investment in affiliate	-	(832,928)	-
Purchased technology and intangibles	(923,326)	(100,000)	-
Net cash provided by (used in) investing activities	(21,428,981)	7,603,750	(5,554,664)
Cash Flows from Financing Activities:			
Issuance of common stock	733,057	157,835	1,002,061
Proceeds from stock offering	27,135,595	-	-
Proceeds from sale/leaseback	-	-	5,380,238
Proceeds from long-term obligations	1,500,000	-	6,530,000
Payments on long-term obligations	(1,200,745)	(708,938)	(2,379,741)
Net cash provided by (used in) financing activities	28,167,907	(551,103)	10,532,558
Effect of Exchange Rate Changes on Cash and Cash Equivalents	238,147	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	1,280,179	(5,536,262)	(330,192)
Cash and Cash Equivalents, Beginning of Year	1,447,662	6,983,924	7,314,116
Cash and Cash Equivalents, End of Year	$ 2,727,841	$ 1,447,662	$6,983,924
Supplemental Disclosures of Cash Flow Information:			
Income taxes paid (refunded)	($ 103,000)	$ 169,400	$ 29,250
Interest paid	$ 635,000	$ 690,700	$ 330,000
Supplemental Disclosure of Noncash Investing Activities-			
Noncash assets and liabilities acquired through the purchase of the remaining outstanding shares of Cambridge Biotech Ltd. in April 1991:			
Net assets	$ 1,419,438	$ -	$ -
Purchased Technology	3,221,622	-	-
Goodwill	766,276	-	-

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1991, 1990 AND 1989

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The financial statements include Cambridge Biotech Corporation (the Company) and its wholly owned subsidiaries, Cambridge Biotech Ltd. (formerly Noctech Limited) and Biotech Research Laboratories, Inc. FSC (FSC). Cambridge Biotech Ltd. was acquired on April 5, 1991 and is a diagnostic manufacturing company in Galway, Ireland (see Note 2). FSC is a foreign sales corporation established for the purpose of exportation of the Company's products. All significant intercompany transactions and accounts have been eliminated.

Business - The Company is in the business of developing, manufacturing and marketing products for the detection, prevention and treatment of infectious diseases in humans and animals.

Cash and Cash Equivalents - The Company considers all highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include money market accounts, certificates of deposit and short-term investments.

Inventories - Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment - Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life
Buildings	30
Furniture, fixtures and equipment	3-15
Leasehold and building improvements	5-15

Maintenance and repairs are charged to operations as incurred, whereas additions and improvements are capitalized.

Purchased Technology and Intangibles - Purchased technology related to the acquisition of assets is recorded at fair market value at acquisition date. Intangibles are comprised of goodwill resulting from the excess of acquisition cost over the estimated fair value of net assets acquired distribution agreements and product registrations and costs incurred for the support and protection of existing patents. Purchased technology and intangibles are amortized on a straight-line basis over periods ranging from three to sixteen years, as determined by independent outside appraisal.

Revenue Recognition - Product sales revenues are recognized at the time of the shipment of goods, and revenues from research and development contracts are recognized over the contractual periods as services are performed. In addition, research agreements which have established payments for distinct achievements or phases are recorded as income as if each were a separate event.

Research and Development Costs - Research and development costs are charged to operations as incurred.

Income Taxes - During 1990, the Company adopted the provisions of the Statement of Financial Accounting Standards No. 96 (SFAS No. 96), "Accounting for Income Taxes." As a result, the extraordinary credit - tax benefit arising from net operating loss carryforwards from Biotech Research Laboratories, Inc. for 1989 has been reclassified to the provision for income taxes.

Net Income (Loss) Per Share - The net income (loss) per share is computed based on the weighted average number of shares of common stock outstanding during each period. Shares issuable pursuant to outstanding options had no effect in 1991 and in 1990 and 1989 were antidilutive.

Translation of Foreign Currencies - Assets and liabilities are translated at exchange rates in effect on reporting dates, and income and expenses are translated at rates in effect on transaction dates. The resulting differences due to changing exchange rates are charged or credited directly to the "cumulative translation adjustment" account included as part of shareholders' equity.

Reclassifications - Certain reclassifications have been made to the 1990 and 1989 financial statements to conform to the 1991 presentation.

2. ACQUISITIONS

In July 1990, the Company acquired an 18% equity interest in Noctech Limited, a diagnostic manufacturing company headquartered in Galway, Ireland. The purchase price was approximately $835,000. The remaining 82% was purchased in exchange for 1,036,691 shares of the Company's common stock on April 5, 1991, and the acquired Company's name was changed to Cambridge Biotech Ltd. Accordingly, the Company's results of operations subsequent to April 5, 1991 reflect Cambridge Biotech Ltd.'s financial results.

The acquisition, valued at approximately $6.2 million, was accounted for by the purchase method of accounting, and, accordingly, the purchase price was allocated to the acquired assets and liabilities based on their fair market value at acquisition date. Goodwill will be amortized over seven years.

The following summarized unaudited pro forma financial information assumes the acquisition had occurred January 1 of each period:

	1991	1990
Net sales	$29,248,000	$22,426,000
Net loss	(178,000)	(11,739,000)
Loss per share	($0.01)	($0.65)

The above amounts are based upon certain assumptions and estimates which the Company believes are reasonable and do not reflect any benefit from economies which might be achieved from combined operations. The pro forma results do not necessarily represent results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

In November 1991, the Company purchased certain assets and distribution agreements from Codiapharm S.A., a Swiss corporation. The acquisition price was approximately $1.9 million and was allocated to the acquired assets based upon fair market value.

On September 7, 1990, Cambridge BioScience Corporation (CBC) merged with Biotech Research Laboratories, Inc. (BTRL) a biotechnology company,of Rockville, Maryland, with CBC as the surviving entity after an exchange for 6,292,613 shares of CBC's common stock. CBC subsequently changed its name to Cambridge Biotech Corporation. The merger has been accounted for as a pooling of interests, and previously issued financial statements have been restated.

Merger and restructuring costs in 1990 include professional fees and severance pay related to the merger of CBC and BTRL.

3. INVENTORIES

Inventories are comprised of the following:

	1991	1990
Finished goods	$ 3,703,752	$ 2,525,331
Work in process	3,887,559	1,058,765
Raw materials and supplies	2,486,129	1,389,045
	$10,077,440	$ 4,973,141

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are as follows:

	1991	1990
Land	$ 1,160,177	$ 1,160,177
Buildings	5,767,154	4,992,783
Furniture, fixtures and equipment	14,172,404	10,430,547
Leasehold and building improvements	7,715,720	6,795,619
Construction in progress	7,962	980,380
	28,823,417	24,359,506
Less accumulated depreciation and amortization	10,691,998	6,934,074
	$ 18,131,419	$17,425,432

5. PURCHASED TECHNOLOGY AND INTANGIBLES

Purchased technology and intangibles are comprised of the following:

	1991	1990
Purchased technology	$ 6,736,250	$ 3,180,000
Patents and patent support	514,154	75,896
Distribution agreements and product registrations	1,580,317	-
Goodwill	922,138	-
Other	263,974	-
	10,016,833	3,255,896
Less accumulated amortization	1,086,858	419,176
	$ 8,929,975	$ 2,836,720

6. LONG-TERM OBLIGATIONS

Long-term obligations are comprised of the following:

	1991	1990
Building loan; interest at prime plus 1/2%; due September 5, 1994; payments of $15,600 per month plus accrued interest; final payment of $3,744,000 due on September 5, 1994	$4,258,800	$4,446,000
Note payable; interest at prime plus 1-1/2%; due August 15, 1994; payments of $41,280 per month including interest; final payment of $300,000	1,359,322	-
Noninterest-bearing note; $306,000 payable annually (net of unamortized discount of $79,329 at December 31, 1991); due October 1993	532,671	757,009
Building loan; interest at 8%; due December 1, 1999; payments of $5,715 per month including interest	394,702	430,155
Line of credit with a bank, paid in 1991	-	500,000
Other, paid in 1991	-	113,076
	6,545,495	6,246,240
Less current maturities	853,812	719,561
	$5,691,683	$5,526,679

Annual maturities on these loans are as follows:

Year Ending December 31	
1992	$ 853,812
1993	926,674
1994	4,495,315
1995	48,770
1996	52,818
Thereafter	168,106
Total	$6,545,495

Long-term obligations is collateralized by buildings with a carrying value of $5,380,000. The prime rate was 6-1/2% and 10% at December 31, 1991 and 1990, respectively. Interest expense was $635,000, $702,000 and $330,000 for 1991, 1990 and 1989, respectively.

7. INCOME TAXES

As of December 31, 1991, the Company has net operating loss (NOL) carryforwards for financial reporting and income tax purposes of approximately $38,000,000 and $29,100,000, respectively, expiring in varying amounts from 1998 to 2005. Aggregate investment and research development credit carryforwards of $1,603,000 at December 31, 1991, expire in varying amounts through the year 2006.

Since the 1990 merger resulted in a "change of ownership" for tax purposes for both CBC and BTRL, the maximum NOL carryforward that may be used in any year for losses incurred prior to the merger is approximately $2,900,000. This limitation is cumulative so that unused limitations from one year can be added to unused limitations in subsequent years. However, use of the Company's NOL carryforward incurred after the date of the merger will not be limited in any year.

The total tax provisions for the years ended December 31, 1991 and 1989 are different from the amount that would have been provided by applying the federal statutory income tax rate to income before income taxes. The reconciliation of this difference is as follows:

	1991	1989
Provision computed at federal statutory income tax rate	$169,000	$612,000
Alternative minimum tax, net of allowable NOL carryforward	(391,000)	110,000
State income tax	58,000	92,000
Foreign subsidiaries' losses	314,000	-
Investment and general business tax credits	-	(333,000)
NOL carryforwards	-	(170,000)
Other	-	3,000
	$150,000	$314,000

There was no tax provision for the year ended December 31, 1990, due to financial reporting and income tax losses.

For the year ended December 31, 1989, BTRL had a provision for income taxes, net of the utilization of net operating loss carryforwards, of $314,000.

8. COMMITMENTS

Leases - The Company has entered into operating leasing agreements for its executive offices, warehouse, research laboratories and manufacturing facilities. The base lease periods range from two to ten years. Two leases contain renewal options, the first for one 5-year period and the second for two 5-year periods. Several leases contain escalation clauses for increases in real estate taxes from the base-year, as well as minimum rental increases for the change in the Price Index, not to exceed 3% of the previous year's rent.

In September 1989, the Company sold certain equipment under a sale/leaseback arrangement. The equipment had a net carrying value of $3,872,000 on the date of sale and was sold for $5,380,000. The resultant deferred income of $1,508,000 is being recognized over the six-year term of the operating lease. In connection with this transaction, the Company has pledged a certificate of deposit as collateral in an amount equal to the outstanding balance on the sale/leaseback. At December 31, 1991, the Company has pledged $4,304,765.

As of December 31, 1991, the future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

Year Ending December 31	Equipment	Real Estate
1992	$1,417,986	$1,661,618
1993	1,336,772	1,336,432
1994	1,290,049	1,277,167
1995	846,721	1,043,492
1996	-	968,995
Total minimum lease payments	$4,891,528	$6,287,704

Certain operating leases contain provisions for annual rent escalations throughout the terms of the leases. Costs incurred under the operating leases are recorded as rent expense and aggregated $2,930,000 in 1991, $2,752,000 in 1990 and $1,993,000 in 1989.

Employment and Consulting Agreements - The Company has agreements with the members of its Scientific Advisory Board, various consultants and key employees, with terms ranging, generally, from one to three years. These agreements provide for current aggregate annual payments of approximately $1,500,000. Costs incurred and charged to operations under these contracts aggregated $2,080,000 in 1991, $2,216,000 in 1990 and $1,349,000 in 1989.

Other Agreements - The Company has entered into various license agreements which require the Company to pay royalties based upon a set percentage of product sales subject, in some cases, to certain minimum amounts. Total royalty expense approximated $657,600 in 1991, $439,000 in 1990 and $330,000 in 1989.

9. CAPITALIZATION OF COMPANY

Capital Stock - On October 24, 1991, the Company had a public offering of 3,795,000 shares of common stock at $7.75 per share, which raised net proceeds of $27,136,000 after deducting underwriter discounts and expenses.

Stock Option and Purchase Plans - The Company has two stock option plans. A plan adopted in 1985 and amended in 1987 provides nonqualified stock options available only to nonemployee consultants. A stock option plan adopted in 1989 provides the granting of incentive stock options to employees and nonqualified stock options, discounted stock options, restricted stock, deferred stock and stock appreciation rights to employees, officers, consultants and advisors. No stock appreciation rights, discounted stock options, restricted or deferred stock had been granted through December 31, 1991.

These plans provide for the granting of options for an aggregate maximum of 2,314,000 shares of common stock and 1,600,000 stock appreciation rights. The price of the shares that may be purchased under the plans shall be determined by the Board of Directors, subject to certain limitations. Options granted

during 1991 generally vest over two to three years. The right to grant options under each plan expires ten years after adoption. A summary of option activity is as follows:

	1991		1990		1989	
	Shares	Price	Shares	Price	Shares	Price
Balance, beginning of year	1,457,735	$ 1.00 to $16.44	709,735	$ 1.00 to $16.44	540,075	$ 1.00 to $16.44
Options granted	399,950	$ 2.00 to $ 7.50	807,000	$ 2.63 to $ 6.69	375,600	$ 4.50 to $13.69
Options rescinded or lapsed	(158,190)	$ 2.00 to $13.50	(59,000)	$ 4.50 to $13.50	(62,876)	$ 4.94 to $13.50
Options exercised	(143,375)	$ 2.56 to $ 6.69	-		(143,064)	$ 1.00 to $10.88
Balance, end of year	1,556,120	$ 1.00 to $16.44	1,457,735	$ 1.00 to $16.44	709,735	$ 1.00 to $16.44

At December 31, 1991, 812,587 options were exercisable under the above-mentioned plans.

The Company has an employee stock purchase plan for all full-time employees (except for employees owning shares who possess 5% or more of the total combined voting power). The price of shares under the employee stock purchase plan is 85% of fair market value on the date of the offering or on the date of completion of the purchase period, whichever is less. The right to offer shares under this plan expires on June 6, 1994, and the rights to purchase shares which have been subscribed for at December 31, 1991, expire at various dates through January 1992. At December 31, 1991, subscriptions were outstanding under this plan for options to purchase 43,567 shares by eligible employees at $1.75 per share. An additional 40,792 shares have been offered by the Company to Stock Purchase Plan participants to cover oversubscriptions to the 1991 offer. Subscriptions for shares exercised under the employee stock purchase plan were 41,987 in 1991, 33,263 in 1990 and 7,394 in 1989, at $1.86, $4.75 and $5.74 per share, respectively.

The Company has reserved a total of 2,175,208 shares of common stock for issuance under all stock option and purchase plans at December 31, 1991.

On November 19, 1991, the Company's Board of Directors approved a program, subject to share holder approval in 1992, to reserve an additional 3,000,000 shares of common stock for the 1989 stock option plan and 500,000 shares of common stock for the establishment of a 1991 Directors' Stock Award and Option Plan. The Board of Directors also granted options under these plans which are rescindable if shareholder approval is not attained. Accordingly, such option activity has not been reflected in the financial statements. The principal executives of the Company were granted options to purchase 1,000,000 shares of common stock at 75% of the fair market value at the date of the grant. The options will vest in five years, but vesting may be accelerated upon the attainment of certain goals. The related compensation expense of $2.4 million will be recognized ratably, or in accordance with the accelerated vesting period, if applicable. In addition, options to purchase 580,000 shares at fair market value at grant date were granted to executives and directors and will vest over the next 3 years.

10. EMPLOYEE BENEFITS PLAN

The Company has a savings plan for its employees pursuant to Section 401(k) of the Internal Revenue Code. Substantially all employees can participate, and the plan allows a deferral of up to 16% of annual compensation to a maximum in 1991 of $8,475. The Company matches 50% of the first 6% of an employee's annual compensation, if contributed to the plan. The Company contribution vests over a four-year period. The amount charged to operations for the plan approximated $229,000, $385,000 and $332,000 in 1991, 1990 and 1989, respectively.

11. MAJOR CUSTOMERS

Ortho Diagnostic Systems Inc. (Ortho) is the Company's principal distributor for retroviral products, which include both screening and confirmatory tests. All of the Company's products marketed by Ortho are under a joint Cambridge Biotech/Ortho label. Sales to Ortho in 1991 and 1990 represented 32% and 34%, respectively, of the Company's product sales.

As part of its program to develop, manufacture and market products for detection, prevention and treatment of human and animal infectious diseases, the Company from time to time enters into agreements with third parties. Such agreements provide the Company with technology license fees, research and development funding, as well as royalties. Agreements at December 31, 1991, including corporate and U.S. government agreements, provide funding through 1992, assuming, in certain cases, achievement of certain mutually-defined milestones.

Approximately 34% of total revenue in 1991 came from two customers, 63% of total revenue in 1990 came from four customers, and approximately 66% in 1989 came from two customers.

12. SEGMENT INFORMATION

The Company operates in one industry segment consisting of the development, manufacturing and marketing of products for the detection, prevention, and treatment of infectious diseases in humans and animals.

Summarized information for 1991 relating to domestic and foreign operations is as follows:

Sales to unaffiliated customers:	
United States	$27,191,531
Europe	1,789,613
	$28,981,144
Operating income (loss):	
United States	$ 1,409,335
Europe	(1,061,484)
	$ 347,851
Identifiable assets:	
United States	$71,621,189
Europe	8,095,031
	$79,716,220

United States export sales were approximately $4.8 million in 1991. The Company had no significant European operations in 1990 or 1989.

13. SALE OF INVESTMENT IN AFFILIATED COMPANY

In December 1991, the Company sold $2.5 million shares of Diagnostic Biotechnology, Pte., Ltd. (DBL), a private company in Singapore. A gain of $1.4 million was realized and is included in interest and other income.

14. CONTINGENCIES

The Company has engaged in negotiations to obtain patent licenses from certain companies which have asserted that their patents cover certain of the Company's products. The Company believes that resolution of these matters will have no material adverse financial impact.

15. SUBSEQUENT EVENT

The Company has reached a tentative agreement to acquire an approximate 17% interest in ADI Diagnostics Inc., a Canadian company which develops, manufactures and markets a line of diagnostic products for human infectious diseases which is complementary to the Company's product offerings. The purchase price is $3,000,000, and the investment will be accounted for on the cost method.

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REPORT OF MANAGEMENT

Statement of Management Responsibilities

The management of Cambridge Biotech Corporation is responsible for the accuracy and content of the financial statements and other financial information in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis in all material respects, and the data includes amounts based on management's judgement where appropriate.

The accounting systems which record, summarize and report financial data are supported by a system of internal controls that is augmented by policies and procedures. The Audit Committee of the Board of Directors, which is made up solely of outside directors, reviews the activities of the finance function and meets with representatives of Deloitte & Touche, the Corporation's independent auditors. Deloitte & Touche has been appointed by the Board of Directors to conduct an independent audit and to express an opinion as to the faireness of the presentation of the financial statements of Cambridge Biotech Corporation.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Cambridge Biotech Corporation
Worcester, Massachusetts

We have audited the accompanying consolidated balance sheets of Cambridge Biotech Corporation and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Biotech Research Laboratories, Inc. and subsidiary for the year ended December 31, 1989, which statements reflect total revenues of $17,100,000. Such financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Biotech Research Laboratories, Inc. and subsidiary, is based solely on the report of such 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Cambridge Biotech Corporation and subsidiaries as of December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991 in conformity with generally accepted accounting principles.

Deloitte & Touche

March 6, 1992
(March 23, 1992 as to Note 15)

Board of Directors

John S. Scott[3]
Chairman
Former Chairman and CEO
Richardson-Vicks, Inc.
(Health and personal care)

Patrick J. Leonard, Ph.D.
F.R.C. Path.
President and CEO

Jeffrey T. Beaver[1]
Independent consultant
Former Group Head, Corporate Finance
IBJ Schroder Bank & Trust Co.
New York, NY
(Investment banker)

E. Russell Eggers[2]
Independent consultant
New York, NY

C. Arnold Kalman[1,2]
Senior Vice President
Booz Allen Hamilton
New York, NY
(Management consultants)

John H. Kellogg[3]
Partner
Kellogg, Gardner & George
Wellesley, MA
(General practice law firm)

John M. Nelson[2,3]
Chairman and CEO
Wyman-Gordon Company
North Grafton, MA
(Manufacturer of forgings, investment castings and composite structures)

W. Samuel Nisbet[1]
Vice President
Signet Bank/Maryland
Bethesda, MD

Thomas T. Taylor, MBA[1,3]
President
Chesapeake Securities Research Corp.
Baltimore, MD
(Investment banker)

Douglas Yee, M.D.[2]
Assistant Professor,
Department of Medicine
University of Texas
San Antonio, TX

1. Audit Committee
2. Nominating Committee
3. Compensation Committee

Officers

Patrick J. Leonard, Ph.D.
F.R.C. Path.
President and CEO

Stephen D. Hayter
Executive Vice President-
General Manager, Americas/Far East
Diagnostics Division

Dante J. Marciani, Sc.D., Ph.D.
Senior Vice President-
Chief Scientific Officer

Susan R. Arntsen
Vice President, Human Resources

Frederick V. Casselman
Vice President, Legal and
Regulatory Affairs
General Counsel
Secretary

Peter P. Hartman
Vice President, Finance and
Chief Financial Officer

Gary E. Long
Vice President, Operations

Gary P. Bouchard
Treasurer

Scientific Advisory Board

Arthur I. Hurvitz, D.V.M., Ph.D.
Chairman
Chairman, Department of Pathology
Director of Research
The Animal Medical Center
New York, NY

James E. Dahlberg, Ph.D.
Frederick Sanger Professor
of Biomolecular Chemistry
University of Wisconsin
School of Medicine
Madison, WI

Myron Essex, D.V.M., Ph.D.
Mary Woodward Lasker Professor
of Health Sciences
Chairman, Dept. of Cancer Biology
Harvard School of Public Health
Boston, MA

Mark I. Greene, M.D., Ph.D., F.R.C.P.
Head of Immunobiology Division
and Professor of Pathology
University of Pennsylvania
School of Medicine
Philadelphia, PA

Thomas M. Li

We wish to extend our appreciation to outgoing director Thomas M. Li, who has served on our Board since 1990. His contributions to the growth of your Company, both as CEO, Chairman and Treasurer of Biotech Research Laboratories, Inc. and as Vice President and Director since the merger, have been significant, and we wish him well.

Corporate Headquarters
365 Plantation Street
Worcester, Massachusetts 01605
(508)797-5777

Annual Meeting
The annual meeting of shareholders will be held on May 19, 1992 at 10:00 a.m. at the Worcester Art Museum, 55 Salisbury Street, Worcester, MA

Transfer Agent
First National Bank of Boston
Boston, Massachusetts

Form 10-K
The Company files a Form 10-K with the Securities and Exchange Commission. Shareholders wishing a copy may write to:

Investor Relations Department
Cambridge Biotech Corporation
365 Plantation Street
Worcester, MA 01605

Auditors
Deloitte & Touche
Boston, Massachusetts

General Counsel
Bowditch & Dewey
Worcester, Massachusetts

Stock Profile and Activity
The stock is traded on the National Market System under the NASDAQ symbol CBCX. No dividends have been declared or paid on common stock.

Price of Common Stock:

	1991		1990	
Quarter	High	Low	High	Low
1st	6 7/8	1 7/8	6 5/8	4
2nd	6 1/4	4 3/8	6 3/4	3 7/8
3rd	8 7/8	5 1/4	5 5/8	2 1/4
4th	11 5/8	7 1/8	3 5/8	1 7/8

As of March 23, 1992, there were approximately 3,384 holders of record of the Company's common stock.

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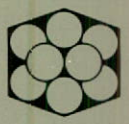

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