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, 1995.

Transition report pursuant to Section 13 or 15(d) of the Securities
- --- Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number O-8092

OXIS International, Inc.
A Delaware corporation
I.R.S. Employer Identification No. 94-1620407
6040 N. Cutter Circle, Suite 317
Portland, OR 97217
Telephone: (503) 283-3911

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.50 par value

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

YES X NO

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

Aggregate market value of the voting stock held by nonaffiliates of the Registrant as of March 18, 1996 (assuming conversion of all outstanding preferred stock into common stock) was $17,282,555.

Number of shares outstanding of Registrant's common stock as of March 18, 1996: 12,124,423 shares.

Certain of the information required by Part III of this Form 10-K is incorporated by reference from a portion of the Company's Proxy Statement for 1996 Annual Meeting of Stockholders.

CONTENTS

PART I PAGE

Item 1. Business..... 1

Item 2. Properties..... 12

Item 3. Legal Proceedings..... 12

Item 4. Submission of Matters to a Vote of Security Holders 12

PART II

Item 5. Market for Registrant's Common Stock and Related Shareholder Matters..... 13

Item 6. Selected Financial Data..... 13

Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations..... 14

Item 8. Financial Statements and Supplementary Data..... 19

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..... 40

PART III

Item 10. Directors and Executive Officers of the Registrant. 41

Item 11. Executive Compensation..... 41

Item 12. Security Ownership of Certain Beneficial Owners and Management..... 41

Item 13. Certain Relationships and Related Transactions..... 41

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K..... 42

SIGNATURES..... 43

EXHIBIT INDEX..... 44

PART I

ITEM 1. BUSINESS.

INTRODUCTION

OXIS International, Inc. ("OXIS" or the "Company"), a Delaware Corporation, is a leader in the discovery, development and commercialization of therapeutic and diagnostic products to diagnose, treat and prevent diseases of oxidative stress. Oxidative stress occurs when the concentration of free radicals and reactive oxygen species (ROS) - highly reactive molecules produced during oxidative processes - exceed the body's antioxidant defense mechanisms.

Recent advances in molecular biology and an increased understanding of the mechanism(s) of action of free radicals, ROS, and antioxidants has led to increased acceptance of oxidative stress as a basic disease mechanism. The Company's extensive portfolio of novel antioxidant compounds and assays for markers of oxidative stress provides multiple opportunities to address several major disease markets. In July 1995, the Company expanded its portfolio of synthetic antioxidants through the acquisition of Therox Pharmaceuticals, Inc., ("Therox"). OXIS has invested significant resources to build an early and comprehensive patent position on both its antioxidant therapeutic technologies and selected oxidative stress assays.

OXIS also has technologies and products which currently produce revenue for the Company. The Company's 32 research and commercial diagnostic assays are sold through a combination of international distribution and a small in-house sales staff. OXIS also derives revenues from licensing agreements, and from sales of both its bulk antioxidants and its veterinary drug, Palosein/(R)/.

The Company's corporate offices are located in a 15,000 sq. ft. facility at 6040 N. Cutter Circle, Suite 317, Portland, OR 97217. Research operations of OXIS are located at 395 Phoenixville Pike, Malvern, PA 19355; and Z.A. des Petits Carreaux, 2, av. des Coquelicots, 94385 Bonneuil-Sur-Marne, Cedex, France (outside of Paris).

ACQUISITIONS/MERGERS

In September 1994, the Company acquired Bioxytech S.A. (now "OXIS S.A."), based in France, and merged with International BioClinical, Inc. ("IBC"), an Oregon corporation, and changed its name from DDI Pharmaceuticals, Inc. to OXIS International, Inc. At the time of the acquisition, OXIS S.A.'s research and development efforts were focused on the synthesis of novel biomimetic

antioxidant compounds designed to target specific tissues. It also had

developed and was selling six research assays for measuring various aspects of oxidative stress. IBC was selling thirteen therapeutic drug monitoring ("TDM") assays at the time of its acquisition by the Company. It was developing one additional TDM assay and a beta-lactamase rapid detection test, both of which projects were completed during 1995.

In July 1995, OXIS acquired Therox Pharmaceuticals, Inc. ("Therox"), a Delaware corporation, through an exchange of stock. Therox was merged into a subsidiary of the Company. Therox was founded in 1994 by S.R. One, Limited (the venture investment arm of SmithKline Beecham) and Brantley Venture Partners II, L.P. Therox was focused on the development of membrane active antioxidants and molecules that combine antioxidant activity with other key therapeutic effects. The acquisition provided the Company with complimentary therapeutic technologies, seven patents and several relationships with university scientists.

Prior to the acquisitions of Bioxytech S.A. and International BioClinical, Inc. in 1994, substantially all of the Company's research and development efforts involved SOD and poly(ethylene glycol) (PEG). The 1994 and 1995 acquisitions substantially expanded the Company's research and development capabilities in the area of synthetic chemistry, as well as in the development of diagnostic assays in general.

RESEARCH AND DEVELOPMENT

OXIS' research and development programs are focused primarily on the discovery and development of new therapeutic molecules to combat diseases related to damage from oxidative stress. The Company has designed and synthesized several series of novel compounds, including: low-molecular-weight biomimetic antioxidants and pro-oxidants that are based on unique selenium and sulfur chemistries, respectively; enzyme inhibitors; and combination enzyme inhibitors/antioxidants. Lead molecules from the Company's focus therapeutics programs, the glutathione peroxidase (GPx) mimics and lipid soluble antioxidant (LSA) programs are moving forward on regulatory pathways toward initiating first-time-in-man clinical testing during the next twelve months.

OXIS has also developed six research assay kits for markers of oxidative stress that are designed to ultimately facilitate diagnosis and optimize therapy of free radical-associated diseases. These assays also provide developmental synergy for the pharmaceutical R&D programs. Additional assays for key markers of oxidative stress will be developed as part of the Company's ongoing R&D efforts in oxidative stress diagnostics.

OXIS also has extensive experience in developing, manufacturing and marketing bovine superoxide dismutase (bSOD). Additionally, the Company has developed a patented, high-molecular weight PEG technology that extends the half-life of SOD and other therapeutic proteins.

Research and development expenses were $4,299,000, $1,670,000, and $813,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

THERAPEUTICS PROGRAMS - SYNTHETIC ANTIOXIDANTS

OXIS' long term goal is to develop new drugs based on unique, proprietary know-how in free radical biochemistry. The Company's strengths in the discovery and development of synthetic antioxidants and free-radical scavenging enzymes is reflected in its substantial portfolio of potential therapeutic molecules for treating diseases and conditions of oxidative stress.

The Company's technical strategy to target specific phases of the free radical and ROS cycle will provide opportunities to treat several major acute and chronic diseases. OXIS is developing new synthetic antioxidants which are intended to protect selected cells and organs from free radical

and peroxide-induced damage. OXIS' synthetic antioxidants exhibit overlap in synthetic chemistry, disease targets, and preclinical development design that has allowed the Company to build core and platform technologies. The Company's antioxidant molecules are designed to be cytoprotective agents, specifically for endothelial cells, cardiac myocytes and lymphocytes.

The Company's synthetic antioxidant therapeutics portfolio is summarized as follows:

GLUTATHIONE PEROXIDASE MIMICS based on unique selenium chemistry -- patent applications are pending.

LIPID SOLUBLE ANTIOXIDANTS possessing rapid and high membrane partitioning for cytoprotection from oxidative stress-induced diseases including ophthalmic, cardiovascular and cosmetic applications -- two patents issued and one patent application is pending.

LOW-MOLECULAR-WEIGHT BIFUNCTIONAL ANTIOXIDANTS that include inducers of glutathione biosynthesis and free radical scavenging activity targeted as a therapeutic for AIDS -- patent application is in preparation.

SULFUR-CONTAINING MOLECULES that exhibit both lipid and protein antioxidant properties targeted for cardiac protection -- one patent is issued and another patent application is pending.

PRO-OXIDANT FREE RADICAL GENERATORS linked to appropriate delivery molecules for breast and prostate cancer.

DUAL FUNCTIONING INHIBITORS OF CYCLOOXYGENASE (COX) AND REACTIVE OXYGEN SPECIES which have been shown to participate in various inflammatory disorders -- one patent is issued.

INJECTABLE FORM OF A XANTHINE OXIDASE INHIBITOR with or without antioxidant activity for the treatment of remote tissue injury, multiple organ failure and adult respiratory distress syndrome (ARDS).

MEMBRANE ANCHORS consisting of rigid, structural anchors with dual affinities for both the hydrophobic and hydrophilic regions of membranes.

FOCUS - SYNTHETIC THERAPEUTICS PROGRAMS

OXIS does not have sufficient resources to simultaneously develop all of the major series of novel antioxidant molecules in its pipeline. Therefore, the Company has focused its investments on two lead therapeutics programs, the GPx mimics and the lipid soluble antioxidants. The remaining series of synthetic antioxidants may be developed through partners, sold or licensed to provide additional revenue to the Company, although no assurance can be given when, or if, this will occur. The following represents a brief summary of the status of the Company's two lead therapeutics research and development programs:

GLUTATHIONE PEROXIDASE (GPx) MIMICS PROGRAM:

GOAL: A well-tolerated, low-molecular-weight, orally active mimic of the naturally occurring antioxidant enzyme, glutathione peroxidase.

POSSIBLE CLINICAL TARGETS: Inflammatory Bowel Disease; Restenosis; Arterial Allograft Rejection; Acute Respiratory Distress Syndrome.

RATIONALE: The endothelium has historically been viewed as a passive vascular lining. However, it has become clear that the endothelium is very much an active tissue that controls vascular tone, maintains hemostatic integrity and modulates immune and inflammatory responses. As these physiological functions have been further defined, functional abnormalities of the endothelium have been identified in association with diseases such as hypercholesterolemia, atherosclerosis, hypertension and intravascular thrombosis. A syndrome of endothelial dysfunction has been described in the literature in which vasoconstricting, proinflammatory and prothrombotic events occur in response to physical, chemical and biological injury to endothelial cells. Glutathione peroxidase is proposed to protect the

endothelium from damage by hydroperoxides generated by the damaged endothelium, and from activated leukocytes within the microvasculature. GPx mimics, like the native enzyme, are designed to catalyze the reduction (inactivation) of toxic hydroperoxides (H\2\O\2\ and lipid peroxides) by glutathione.

CURRENT STATUS: Of its several series of proprietary organoselenium molecules (molecular weight less than 300) that possess glutathione peroxidase activity, the Company has selected a lead compound. The lead compound was selected for further evaluation based on a favorable glutathione peroxidase/oxidase activity ratio, its demonstrated profile of concentration-dependent protection of human umbilical vein endothelial cells (HUVEC) from damage by

H\2\O\2\, lipid peroxides, activated human neutrophils, TNFalpha and IL-1alpha, and its toxicity profile observed with sub-chronic oral administration in rats. Pharmacology studies are in progress in animal models of restenosis following balloon angioplasty, inflammatory bowel disease, and acute hepatitis. Other pharmacology studies in animal models of arterial allograft, post-radiation fibrosis and acute respiratory distress syndrome may be initiated in 1996. As part of the preclinical testing program for the GPx mimics, genotoxicity, GLP toxicity and metabolism studies are in progress. The GPx program is on track to enter into first-time-in-man clinical testing in mid-1996, with IND and CTX filings scheduled for submission at the end of third quarter 1996 to obtain approval to initiate Phase II human clinical trials in first quarter 1997, provided, however, no assurances can be given that the foregoing timetable will be met.

PATENTS: A patent application on these compounds was filed in France in April 1994 and became public in October 1995. A PCT filing was made in April 1995.

LIPID SOLUBLE ANTIOXIDANT (LSA) PROGRAM:

GOAL: An orally, parenterally and/or topically active ascorbic acid analog with improved cell membrane-protective properties arising from increased free radical scavenging activity and extended plasma membrane residency compared to vitamin C.

POSSIBLE CLINICAL TARGETS: Reperfusion injury; Solar radiation-induced skin damage; Restenosis.

RATIONALE: Extensive experimental and epidemiological data exists suggesting that various antioxidants alone or in combination have a significant beneficial effect in a wide variety of disease including atherosclerosis, asthma, inflammatory bowel disease and various central nervous system disorders. Low-molecular-weight antioxidant defense systems have evolved in order to control the inadvertent release of reactive oxygen species or mitigate their impact. These systems generally fall into two distinct classes: water-soluble antioxidants whose radical-scavenging activity resides primarily in the hydrophilic intra- and extra-cellular spaces, and lipophilic antioxidants, such as vitamin E, which act within cell membranes. Ascorbic acid (vitamin C) is believed to be the most active of the naturally occurring, water-soluble antioxidants. Although significantly less effective than ascorbic acid, vitamin E is believed to play a critical role as a cytoprotective agent by minimizing lipid peroxidation and inactivation of membrane-bound proteins. The affinity of ascorbic acid for aqueous environments limits its usefulness for prevention of membrane lipid peroxidation. Development of a membrane-targeted antioxidant that combines the potency of ascorbic acid with the membrane protective effects of vitamin E should provide a novel antioxidant with unique clinical activity.

CURRENT STATUS: Selected lead compounds from this program have demonstrated 20 to 40 times the antioxidant activity of vitamin E in various membrane models including sarcolemma membranes isolated from ventricular myocytes, hepatic microsomal preparations and models of LDL oxidation. The compounds have been tested in isolated perfused hearts and endotoxin-induced shock. In vitro studies have shown the LSA molecules to be effective scavengers of secondary lipid radicals, as well as having the ability to partially ablate nitric oxide release

secondary to endotoxin administration. Based on results of compound validation, a lead molecule is moving forward on a regulatory path toward initiation of human testing within the next twelve months provided, however, that no assurances can be given that this schedule will be met. Immediate program activities for the LSA program include initiation of scale-up synthesis of compound, initiation of pharmacology testing in animal models for selected diseases and initiation of preclinical testing (i.e., toxicity, metabolism, genotoxicity).

SOD THERAPEUTICS PROGRAMS

OXIS also has a limited portfolio of free radical scavenging enzymes:

RECOMBINANT HUMAN SUPEROXIDE DISMUTASE (rhSOD) has been coupled to high molecular weight, activated PEG to produce one of the long-acting forms of SOD -- PEG-rhSOD. OXIS has patented its long-lasting PEG-rhSOD in the United States and 24 other countries. A preclinical safety program has been initiated with PEG-rhSOD to measure the upper limit of doses that can be safely administered to laboratory animals, to assess the safety of repeated administration and to identify the manifestations of toxicity that will require assessment in subsequent human clinical studies.

Rats and dogs have been injected with a series of increasing doses of PEG-rhSOD in order to determine the maximum clinically-tolerated dose. In another study, groups of rats received repeated daily injections of a constant dose for 28 days. The last study in this series is scheduled for initiation during 1996. Based on the results of these studies, OXIS will determine how it will proceed with the PEG-rhSOD technology.

BOVINE SUPEROXIDE DISMUTASE (bSOD) has been previously studied in numerous clinical trials by OXIS and other companies. OXIS currently supplies bulk bSOD for human use and sells an injectable dosage form of the drug for veterinary applications (i.e., Palosein/(R)/).

During 1994, OXIS applied for and received Orphan Drug designation from the FDA for bSOD as a possible treatment for familial ALS. This application was based on a limited study of the tolerability and subjective responses of one familial ALS patient. Due to the expense of the treatment, difficulties with conducting clinical trials, regulatory issues, limited market potential and the recent emergence of competing products, OXIS has decided to not pursue the development of bSOD for this indication.

HIGH MOLECULAR WEIGHT POLY(ETHYLENE GLYCOL)

These derivatives reduce the immunogenicity of and extend the life of therapeutic proteins in the body (OXIS' PEG has been shown to extend the life of its bSOD in vivo by 250 times).

During 1994, the Company received a U.S. patent for its invention of a form of PEG for making therapeutic proteins immunologically safer and longer acting. In addition, in 1994, the Company filed an application for a U.S. patent that would broaden the scope of its intellectual property protection with respect to both the claimed polymers and the claimed conjugates including those polymers.

OXIDATIVE STRESS ASSAYS

The Company currently has two new research assays for markers of oxidative stress in development: a second generation assay for glutathione (GSH-2) and a second generation lipid peroxidation (LPO-2) kit.

The GSH-2 assay being developed by OXIS is intended to be suitable for specific measurements of GSH in the low micromolar range. This assay should

be applicable for determining GSH in plasma or circulating lymphocytes.

The improved LPO-2 assay is intended to be more sensitive than its current LPO assay, and capable of being automated for the clinical laboratory.

The Company believes that the number and range of its assay kits for markers of oxidative stress is a distinct competitive advantage for OXIS in terms of developing potentially clinically relevant diagnostics for diseases of oxidative stress and monitoring therapy of these diseases. OXIS plans to use its oxidative stress assays to support the development of its new pharmaceutical products by employing them as clinical markers whenever possible.

BETA-LACTAMASE ASSAY

Under a technology development agreement with the University of Iowa, OXIS also has rights to any intellectual property and inventions created, together with any patents relevant to the development of beta-lactam-based technology for the rapid, sensitive detection of beta-lactamases. Beta-lactamases are a major mechanism of microbial resistance to certain antibiotics.

The first assay from this agreement was licensed to Becton, Dickinson and Company in 1995 for product development. A second cephalosporin-based chromogenic substance is in the final stages of synthesis and purification.

PRODUCTS

NEW DIAGNOSTIC ASSAYS

In 1995, OXIS completed development of its fourteenth therapeutic drug monitoring (TDM) assay. The INNOFLUOR Topiramate Assay will be used to monitor levels of the new anti-convulsant drug, topiramate. The assay was introduced in November 1995 and is currently being sold in the UK, the first country to approve the drug for use.

A patent application was filed for the assay in December 1995; and in February 1996, the Company submitted a 510(k) application requesting clearance for marketing this assay in the United States.

OXIS received FDA clearance for marketing its product, Beta-Lactamase Rapid Enzyme Detection Discs, in May of 1995. This product detects the production of the beta lactamase enzyme, indicating potential antibiotic resistance. In October 1995, the Company concluded an agreement with Becton, Dickinson and Company granting them exclusive marketing and manufacturing rights to the technology.

In early 1996, OXIS introduced the PROCLAIM/TM/ line of twelve assays to test for drugs of abuse. The kits will be sold initially in Italy, Germany, Benelux and the UK.

Revenues from sales of the Company's assays comprised 44% of 1995 revenues, and 19% of 1994 revenues.

OXIDATIVE STRESS ASSAYS

The Company has six research assays available for sale which measure key markers in free radical biochemistry. Specifically, these assays measure levels of antioxidant protection, oxidative alterations, and pro-oxidant activation of specific white blood cells. OXIS' research assays include:

SOD-525 (superoxide dismutase)
GSH-400 (reduced glutathione)
pl-GPx-EIA (human plasma-specific glutathione peroxidase)
LPO-586 (lipid peroxidation)
MPO-EIA (human myeloperoxidase)
Lactoferrin-EIA (human lactoferrin).

These assay kits utilize either chemical (colorimetric) or immunoenzymatic (EIA) reactions that can be read using laboratory spectrophotometers and

microplate readers, respectively. The Company's assays offer advantages over conventional laboratory methods, including ease of use, speed, specificity and accuracy.

The assays for markers of oxidative stress are currently being sold to researchers in Europe, Japan and the United States, primarily through distributors. The Company estimates that there are more than 3,500 scientists and clinicians who are working directly in research on free radical biochemistry, and who are potential customers for these research assays.

The assays for markers of oxidative stress are manufactured at the Company's facility in France. All of the oxidative stress assays are manufactured in batches in anticipation of customer orders. Orders are generally filled within a few days; therefore, the Company does not have any significant backlog of orders. The Company believes that adequate supplies of raw materials are either currently on hand, available from commercial suppliers or available through development on a custom basis by commercial contractors, as needed.

The Company's assays for markers of oxidative stress are protected by trade secrets and patents. Seven French patent applications have been filed with respect to these assays, two of which have resulted in the issuance of patents. The oxidative stress assays are sold under the registered trademark "Bioxytech".

Several companies other than OXIS have developed assays for markers of oxidative stress. One company offers assays for superoxide dismutase and glutathione peroxidase which compete directly with OXIS' products; and a few competitive assays for lipid peroxidation are available from selected companies. The Company believes that the number and range of its assay kits for markers of oxidative stress is a distinct competitive advantage

THERAPEUTIC DRUG MONITORING (TDM) ASSAYS

The Company sells fourteen TDM assays which are based on FPIA technology. These products are sold under the trade name INNOFLUOR/TM/. The Company's test menu encompasses approximately 90% of the TDM tests performed by clinical and reference laboratories worldwide. These assays are designed for use on the Abbott Laboratories TDx/(R)/ and TDxFLx/(R)/ analyzers.

The TDM products are sold through a combination of direct customer sales and distributors in the United States, and through a network of distributors outside the United States, principally in Europe.

The TDM assays are manufactured at the Company's facility in Portland, Oregon. All of the TDM assays are manufactured in batches in anticipation of customer orders. Orders are generally filled within a few days; therefore, the Company does not have any significant backlog of orders. The Company believes that adequate supplies of raw materials are either currently on hand, available from commercial suppliers or available through development on a custom basis by commercial contractors as needed.

The Company relies primarily on trade secrets, know-how and trademark laws to protect its TDM assays. The Company's TDM assays have been sold under the trade name INNOFLUOR/TM/ since the mid-1980s.

Six major diagnostic companies dominate the therapeutic drug monitoring market. Each of these six companies provides a range of both instrumentation and assays to clinical laboratories. Of these, Abbott Laboratories holds the largest market share. OXIS competes most directly with Abbott Laboratories, because OXIS' assays are designed to be run on Abbott's analyzers. The Company competes based on high product quality, an aggressive pricing strategy and technical services. Abbott Laboratories and certain of the Company's other competitors have substantially greater financial and other resources than the Company and there can be no assurances that the Company can effectively compete with Abbott Laboratories and such other competitors.

THERAPEUTIC PRODUCTS

Revenues from sales of bulk bSOD, royalties on bSOD products sold by licensees, and sales of Palosein/(R)/, the Company's veterinary bSOD product, comprised approximately 48% of the Company's total revenues in 1995, 76% in 1994 and 97% in 1993.

BOVINE SOD (bSOD) PRODUCTS

Commercial-scale manufacture and quality control of bulk bSOD, as well as subsequent quality control and processing of bSOD into vials require complex, multi-step processes, continuously developed and improved by the Company since 1965. The Company's processes refine large masses of United States Department of Agriculture inspected, edible beef liver into small amounts of highly purified bulk bSOD. The bulk bSOD is then combined with stabilizing quantities of sucrose and freeze dried in vials to produce dosage forms. The sterile dosage form of bSOD in vials is stable at room temperature for four or more years. Although there are other sources of bSOD and other laboratory and pilot-scale processes to produce bSOD, the Company believes that it is the only company manufacturing bSOD on a commercial scale for pharmaceutical uses.

The Company maintains no bSOD production facilities and has an agreement with Diosynth B.V., a Dutch contract manufacturer of pharmaceutical ingredients, to manufacture bulk bSOD and supply it to OXIS under the terms of a license based on the Company's processes. Diosynth B.V. is an affiliate of AKZO-Nobel N.V., a large, Dutch multinational chemical and health care company.

The Company believes that its present source of bSOD is adequate for its near-term foreseeable needs.

Although the Company continues to have unpatented trade secrets and know-how, substantially all of the Company's important U.S. and foreign patents regarding SOD inventions (other than its recently developed, long-acting SOD derivatives) have expired. Expiration of the Company's

patents may enable other companies to benefit from research and development efforts of the Company, but such other companies would not receive the benefits of the Company's unpatented trade secrets and know-how or unpublished preclinical or clinical data. Such other companies would still be required in some countries to expend considerable resources to conduct preclinical studies and clinical studies of their own pharmaceutical preparations of SOD and to seek and secure governmental approval to market such preparations.

The Company does not market dosage forms of bSOD for human use and does not depend substantially on trademarks. Palosein/(R)/ is OXIS' registered trademark for its veterinary brand of bSOD.

The Company has licensed three European pharmaceutical companies to market animal source (including bovine) SOD for human uses. These licensees have distributed bSOD for a variety of human uses primarily in Germany, Italy and Spain, with smaller markets elsewhere in Europe, the Middle East and South America. However, as discussed in Note 12 to the Company's consolidated financial statements, the European market for the Company's bSOD has been adversely impacted by regulatory developments in Europe.

The Company's three European licensees have been responsible for a substantial, though decreasing, portion of the Company's revenues in recent years. Sales to, and royalties from, Grunenthal GmbH (German licensee), Tedec-Meiji Farma, S.A. (Spanish licensee), and SmithKline Beecham Pharmaceutici S.p.A. (Italian licensee) as a percentage of the Company's total revenues for the past two years, have been as follows:

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Grunenthal	2%	9%	23%
Tedec-Meiji	16%	18%	8%
SmithKline Beecham	--	2%	7%

</TABLE>

The Company expects that its revenues from sales to, and royalties from, its European licensees in the foreseeable future will be substantially less than

historical levels. The Company anticipates significant sales of bSOD products only to its Spanish licensee in 1996. The amount of sales to the Spanish licensee for 1996 and beyond cannot be predicted, as such sales will depend on a Spanish Ministry of Health ruling regarding distribution and the outcome of current clinical trials.

During recent years, the Company has been selling bulk bSOD to a major pharmaceutical company (Sanofi Winthrop Inc., formerly Sterling Winthrop Inc.) for use in its development of a pharmaceutical product for use in humans. During 1995, Sanofi Winthrop reported on a Phase III clinical trial in which results did not reach statistical significance. The Company does not expect that Sanofi Winthrop will buy bulk bSOD product from OXIS in the foreseeable future.

In the last quarter of 1993, the Company reintroduced its veterinary bSOD product, Palosein/(R)/, in the United States. Palosein/(R)/ is used primarily for the treatment of certain musculoskeletal inflammatory conditions in horses and dogs. Palosein/(R)/ sales in the United States and Canada exceeded $550,000 during 1995. Palosein/(R)/ is also distributed in Germany under a license agreement with Grunenthal.

EMPLOYEES

As of December 31, 1995, the Company had 60 employees (35 in the United States and 25 in France). Employees of the Company's French subsidiary are covered by a government-sponsored collective bargaining agreement. None of the United States employees are subject to a collective bargaining agreement. The Company has never experienced a work interruption.

FOREIGN OPERATIONS AND EXPORT SALES

For information regarding the Company's foreign operations and export sales, see Note 10 to the consolidated financial statements.

ITEM 2. PROPERTIES.

The Company occupies, pursuant to leases, office and laboratory space in Portland, Oregon; Malvern, Pennsylvania; and near Paris, France.

The Company's Portland, Oregon lease expires in 1997; the lease of the Malvern, Pennsylvania facility and the lease of the facility in France expire in 1998.

Although the premises currently occupied are suitable for the Company's present requirements, other equally suitable premises are readily available.

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings to which the Company is a party or to which any of its property is subject.

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

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the year ended December 31, 1995.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS.

The Company's common stock is traded on the NASDAQ National Market System using the symbol OXIS.

Recent quarterly prices of the Company's common stock are as follows:

<TABLE>
<CAPTION>

	1995				1994			
	4TH	3RD	2ND	1ST	4TH	3RD	2ND	1ST
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
High	2 13/16	3 1/2	4 1/2	2 7/8	3 1/8	3 1/2	4	4 3/8
Low	1 1/8	2 1/4	1 3/4	1 5/8	1 3/8	2 1/2	2 5/8	3 1/8

</TABLE>

The Company has an estimated 7,000 shareholders, including approximately 2,500 shareholders who have shares in the names of their stockbrokers. The Company utilizes its assets to develop its business and, consequently, has never paid a dividend and does not expect to pay dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA.

<TABLE>
<CAPTION>

FOR YEARS ENDED DECEMBER 31:	1995	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
Total Revenues/1/	$ 5,136,000	$ 3,470,000	$ 3,044,000	$2,772,000	$2,650,000
Net income (loss)	$(8,892,000)/2/	$(5,567,000)/3/	$(1,485,000)/4/	$ (339,000)	$ (193,000)
Net income (loss) per share	$(.82)/2/	$(.88)/3/	$ (.30)/4/	$ (.07)	$ (.04)
AS OF DECEMBER 31:					
Total assets	$ 9,870,000	$ 11,194,000	$ 3,124,000	$4,864,000	$4,770,000
Long-term obligations	$ 1,332,000	$ 376,000	--	--	--
Common shares outstanding	12,124,423	9,322,762	4,982,670	4,982,670	4,982,670

</TABLE>

/1/ Earned interest not included in revenue.
/2/ Includes a charge of $3,329,000 ($.31 per share) for the write off of certain technology of an acquired company.
/3/ Includes a charge of $3,675,000 ($.58 per share) for the write off of certain technology of acquired companies.
/4/ Includes a charge of $1,531,000 ($.31 per share) for control contest expense.

As explained under the caption "ACQUISITIONS" in Management's Discussion and Analysis of Financial Condition and Results of Operations below, the Company made significant acquisitions during 1994 and 1995 that affect the comparability of the amounts reflected in the table above.

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

ACQUISITIONS

In September 1994, the Company significantly increased its scientific and technical staff, patent application portfolio, current product offerings, research and development programs, research and manufacturing facilities and its customer base by acquiring Bioxytech S.A. (now "OXIS S.A.") and International BioClinical, Inc. ("IBC") (together the "1994 acquired businesses"). Both acquisitions were completed through the exchange of stock, and were accounted for as purchases; accordingly, the acquired assets and

liabilities were recorded at their estimated fair values as of the date of acquisition. IBC was merged into the Company. OXIS S.A. operates as a subsidiary of the Company.

In July 1995, in a transaction which was also accounted for as a purchase, the Company acquired Therox Pharmaceuticals, Inc. ("Therox") through an exchange of stock. Therox was merged into a wholly-owned subsidiary of the Company. The acquisition of Therox provided the Company with a technology portfolio complementary to its novel therapeutics for treatment of free radical associated diseases together with university partnerships and seven patents.

Because the acquisitions have been accounted for as purchases, the Company's consolidated results of operations include the operating results of the acquired businesses from the dates of acquisition only. Therefore, the results of operations of the 1994 acquired businesses are included in the consolidated statements of operations from September 7, 1994, and the results of Therox's operations are included in the consolidated statements of operations from July 19, 1995.

Costs relating to the acquisitions and the Company's more complex corporate structure and the increased research and development investments have placed significant demand on the Company's limited financial resources. See "Financial Condition, Liquidity and Capital Resources" below.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

During 1995 the Company's working capital deficit increased from $1,046,000 at December 31, 1994, to $1,469,000 at December 31, 1995. This increase in the Company's working capital deficit resulted primarily from the effect of the net loss for 1995 ($8,892,000 less non-cash charges of $4,698,000), offset by proceeds from issuance of stock ($2,925,000) and long-term debt ($1,255,000). Shareholders who hold $766,000 of notes that are included in current liabilities at December 31, 1995 have commitments to invest an amount at least equal to the note balances in equity securities of the Company. During March 1996 the Company is negotiating with these shareholders terms for converting these notes to stock of the Company. If all such notes are converted to Company stock, the Company's working capital deficit will be reduced by $766,000.

Cash and certificates of deposit declined from $1,432,000 at December 31, 1994, to $727,000 at December 31, 1995.

The Company expects to continue to report losses in the near term as the level of expenses is expected to continue to exceed revenues. The Company must raise additional capital during the first half of 1996. Failure to raise such additional capital would cause the Company to severely curtail or cease operations. For more information concerning the Company's ability to continue as a going concern, see Note 1 to the consolidated financial statements.

While the Company believes that its new products and technologies show considerable promise, its ability to realize significant revenues therefrom is dependent upon the Company's success in developing business alliances with biotechnology and/or pharmaceutical companies that have the required resources to develop and market certain of these products. These is no assurance that the Company's effort to develop such business alliances will be successful. Further, bovine superoxide dismutase sales of recent years to Sanofi Winthrop Inc. (18% of 1995 revenues) are not expected to continue. Sanofi Winthrop announced in October 1995 that a second Phase III trial on its drug, DISMUTEC (a coupled form of OXIS' bovine superoxide dismutase) to treat head trauma failed to show statistically significant improvements between the treatment and control groups. Although the Company is currently seeking additional funds through a private placement (described below), it cannot predict the source, terms, amount, form, and/or availability of additional capital to fund its operations to the end of the current year.

The Company has engaged an agent to assist on a best-efforts basis to raise up to $4,000,000 in the first quarter of 1996 through the sale of its Series C Preferred Stock. On March 4, 1996, the Company announced the first closing of the offering, with proceeds of $763,000 from the sale of

Series C Preferred Stock. Even if the Company is able to sell the entire $4,000,000 of Series C Preferred Stock, it expects that additional capital will be required during 1996 to continue operating in accordance with its current plans. However, no

assurances can be given that the Company will successfully raise the needed capital. If the Company is unable to raise additional capital during the remainder of 1996, it would endeavor to extend its ability to continue in business through the reduction of personnel and facility costs, by slowing its research and development efforts, and by reducing other operating costs, however, no assurances can be given that it will be able to do so.

RESULTS OF OPERATIONS

The Company's sales for the past three years consisted of the following:

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Diagnostic and research assays	$2,240,000	$ 645,000	$ --
Bovine superoxide dismutase (bSOD) for research and human use	1,817,000	2,130,000	2,098,000
Palosein/(R)/ (bSOD for veterinary use)	555,000	346,000	123,000
Other	370,000	204,000	94,000
Total sales	$4,982,000	$3,325,000	$2,315,000

</TABLE>

Diagnostic and research assays are products acquired with the acquisitions of IBC and OXIS S.A.. Sales of these products for 1994 represent sales from September 8 through the end of the year. The entire year's sales of diagnostic and research assays are included in the Company's sales for 1995.

Reductions of bulk bSOD sales to Sanofi Winthrop and to the Company's German licensee in 1994 were offset by an increase in sales to the Company's Spanish licensee, resulting in a slight increase in bulk bSOD sales in 1994. In 1995 bulk bSOD sales to Sanofi Winthrop declined further, and there were no sales to the Company's German licensee. These decreases were partially offset by a further increase in sales to the Spanish licensee.

Since no further sales of bSOD to either Sanofi Winthrop or the Company's German licensee are anticipated, future sales of bulk bSOD are largely dependent on the needs of the Company's Spanish licensee. Although the Spanish licensee has continued to purchase bSOD in the first quarter of 1996, the Company has received no further firm orders for bSOD beyond what has been shipped in the first quarter of 1996. Thus, the Company's sales of bulk bSOD for 1996 and beyond are uncertain and difficult to predict and no assurances can be given with respect thereto.

Sales of Palosein/(R)/, which was reintroduced to the U.S. market in 1993 and is sold primarily to veterinary wholesalers in the United States, increased from $123,000 in 1993 to $346,000 in 1994 and $555,000 in 1995 as a result of an active direct mail marketing campaign, which the Company intends to continue.

Royalty income in 1994 declined to $145,000, from $729,000 in 1993. As discussed in Note 12 to the consolidated financial statements, the Company anticipates that royalties from licensees of its bSOD products will be minimal in the future because of the recent regulatory developments in Europe. A further decline in royalties in 1995 was offset by a fee generated from an agreement to license rights to the Company's technology for the rapid detection of antibiotic resistance.

COSTS AND EXPENSES

Cost of sales as a percent of product sales increased from 57% in 1993 to 62% in 1994. This increase in cost was partially due to the inclusion, in 1994, of sales and cost of products of the businesses acquired in September 1994. The cost of those products includes the amortization of acquired technology ($239,000 in 1994 and $727,000 in 1995). In addition, the cost of bulk bSOD sales in 1994 was higher than usual due to a significant sale at less than the Company's historic profit margin. Cost of sales as a percent of product sales declined from 62% in 1994 to 59% in 1995. In 1995 the cost of the Company's diagnostic and research assays declined slightly as a result of increased volumes, and the cost of bulk bSOD sales also declined from the 1994 level.

Research and development costs increased from $813,000 in 1993 to $1,670,000 in 1994 and $4,299,000 in 1995. The increases were primarily due to the cost of the research and development activities associated with pharmaceutical technologies acquired in the September 1994 and July 1995 business acquisitions.

Sales, general and administrative expenses increased from $1,008,000 in 1993 to $1,652,000 in 1994. This increase was due to the inclusion of general and administrative costs of the acquired businesses after the September 1994 acquisitions, other current expenses relating to the acquisitions, increases in insurance coverage, and increased marketing costs relating to Palosein/(R)/ and new products from the 1994 acquisitions.

Sales, general and administrative expenses increased further in 1995 to $3,332,000. The increase in 1995 was due primarily to the inclusion for the entire year of general and administrative costs of the businesses acquired in 1994, further increases in sales and marketing costs relating to Palosein/(R)/ and the new products from the 1994 acquisitions, and increased legal fees and other expenses relating to the Company's ongoing need to raise capital and more complex corporate structure.

Expenses included charges of $3,675,000 and $3,329,000 to operations for 1994 and 1995, respectively, reflecting the write-off of purchased in-process technology, as described in Note 3 to the consolidated financial statements.

INTEREST INCOME AND EXPENSE

Interest income decreased and interest expense increased in both 1994 and 1995 as the Company liquidated certificates of deposit and borrowed funds pursuant to short-term and long-term interest bearing obligations to finance increased research and development efforts.

NET LOSS

The Company incurred net losses in 1993, 1994 and 1995. In 1993 the Company recorded non-recurring costs and expenses of $1,531,000 ($.31 per share) relating to a contest for control of the Company. The 1994 loss includes a $3,675,000 ($.58 per share) charge to operations for the write-off of purchased in-process technology related to the acquisitions of OXIS S.A. and IBC. Similarly, the 1995 loss includes a $3,329,000 ($.31 per share) charge to operations for the write-off of purchased in-process technology related to the acquisition of Therox. Excluding these unusual charges, the Company would have incurred a net income of $46,000, or $.01 per share for 1993; a net loss of $1,892,000, or $.30 per share for 1994; and a net loss of $5,563,000, or $.51 per share for 1995.

Increased research and development expenditures and selling, general and administrative expenses from the businesses acquired late in the third quarter of 1994 and increased research and development expenditures relating to the acquisition of Therox early in the third quarter of 1995 contributed to the increased losses.

The Company expects to incur a substantial net loss for 1996. If

additional capital is raised through further sales of securities (See Financial Condition, Liquidity and Capital Resources), the Company plans to continue to invest in research and development activities and incur sales, general and administrative expenses in amounts greater than its anticipated near-term product margins. If the Company is unable to raise sufficient additional capital, it will have to cease, or severely curtail, its operations. In this event, while expenses will be reduced, expense levels, and the potential write down of various assets, would still be in amounts greater than anticipated revenues.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 727,000	$ 936,000
Certificates of deposit	--	496,000
Accounts receivable	823,000	740,000
Inventories	953,000	673,000
Prepaid and other	262,000	228,000
Total current assets	2,765,000	3,073,000
Property and equipment, net	1,092,000	1,298,000
Assets under capital leases, net	1,198,000	1,340,000
Technology for developed products and custom assays, net	4,498,000	5,215,000
Other assets	317,000	268,000
Total assets	$9,870,000	$11,194,000

</TABLE>

See accompanying notes.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Note payable to bank	$ --	$ 340,000
Other notes payable	1,616,000	--
Accounts payable	1,182,000	1,562,000
Customer deposits	250,000	1,116,000
Accrued liabilities	903,000	628,000
Current portion of capital lease obligations	283,000	473,000
Total current liabilities	4,234,000	4,119,000
Capital lease obligations	47,000	297,000
8% convertible subordinated debentures	1,255,000	--
Other liabilities	30,000	79,000

Commitments and contingencies (Notes 1, 3 and 11)		
Shareholders' equity:		
Preferred stock - $.01 par value; 5,000,000 shares authorized; 642,583 issued and outstanding (liquidation preference of $1,500,000)	6,000	--
Common stock - $.50 par value; 25,000,000 shares authorized; 12,124,423 shares issued and outstanding	6,062,000	4,661,000
Additional paid in capital	25,210,000	20,230,000
Accumulated deficit	(27,031,000)	(18,139,000)
Accumulated translation adjustments	57,000	(53,000)
Total shareholders' equity	4,304,000	6,699,000
Total liabilities and shareholders' equity	$ 9,870,000	$ 11,194,000

</TABLE>

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Revenues:			
Sales	$ 4,982,000	$ 3,325,000	$ 2,315,000
Royalties and license fees	154,000	145,000	729,000
Total revenues	5,136,000	3,470,000	3,044,000
Costs and expenses:			
Cost of sales	2,939,000	2,074,000	1,330,000
Research and development	4,299,000	1,670,000	813,000
Sales, general and administrative	3,332,000	1,652,000	1,008,000
Purchased in-process technology (Note 3)	3,329,000	3,675,000	--
Control contest	--	--	1,531,000
Total costs and expenses	13,899,000	9,071,000	4,682,000
Operating loss	(8,763,000)	(5,601,000)	(1,638,000)
Interest income	42,000	82,000	153,000
Interest expense	(171,000)	(48,000)	--
Net loss	$(8,892,000)	$(5,567,000)	$(1,485,000)
Net loss per share	$(0.82)	$(0.88)	$(0.30)
Weighted average number of shares used in computation	10,854,149	6,350,097	4,982,670

</TABLE>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	$(8,892,000)	$(5,567,000)	$(1,485,000)
Adjustments to reconcile net loss to cash provided by (used for) operating activities:			
Depreciation and amortization	1,369,000	551,000	53,000
Purchased in-process technology	3,329,000	3,675,000	--
Changes in assets and liabilities:			
Accounts receivable	(70,000)	258,000	201,000
Inventories	(17,000)	(186,000)	(105,000)
Other current assets	209,000	(19,000)	12,000
Accounts payable	(565,000)	562,000	(248,000)
Customer deposits	(866,000)	1,116,000	--
Accrued liabilities	251,000	(8,000)	(7,000)
Net cash provided by (used for) operating activities	(5,252,000)	382,000	(1,579,000)
Cash flows from investing activities:			
Redemption of certificates of deposit	496,000	884,000	2,098,000
Purchase of equipment	(99,000)	(40,000)	(69,000)
Acquisition and stock issuance costs (Note 3)	--	(1,361,000)	--
Cash of businesses acquired (Note 3)	143,000	273,000	--
Other	(136,000)	19,000	--
Net cash provided by (used for) investing activities	404,000	(225,000)	2,029,000
Cash flows from financing activities:			
Short-term borrowing	1,366,000	296,000	--
Proceeds from issuance of long-term debt	1,255,000	--	--
Costs in connection with isssuance of long-term debt	(152,000)	--	--
Proceeds from issuance of stock, net of related cost	3,077,000	--	--
Repayment of short-term notes	(340,000)	--	--
Repayment of capital lease obligations and other liabilities	(573,000)	(275,000)	--
Net cash provided by financing activities	4,633,000	21,000	--
Effect of exchange rate changes on cash	6,000	--	--
Net increase (decrease) in cash and cash equivalents	(209,000)	178,000	450,000
Cash and cash equivalents - beginning of year	936,000	758,000	308,000
Cash and cash equivalents - end of year	$ 727,000	$ 936,000	$ 758,000
Supplemental schedule of noncash operating and financing activities:			
Inventory purchase with deferred payment terms	$ 250,000	--	--
Common stock issued as incentive to purchase notes	$ 156,000	--	--

</TABLE>

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Additional paid-in	Accumulated	Accumulated translation	Total shareholders'
	Shares	Amount	Shares	Amount	capital	deficit	adjustments	equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

Balances, January 1, 1993			4,982,670	$2,491,000	$12,863,000	$(11,087,000)		$ 4,267,000
Net loss					(1,485,000)		(1,485,000)	
Balances, December 31, 1993			4,982,670	2,491,000	12,863,000	(12,572,000)		2,782,000
Series A preferred and common shares issued in connection with 1994 business combinations (Note 3)	40,000	$ --	4,340,092	2,170,000	7,367,000			9,537,000
Accumulated translation adjustments						$(53,000)	(53,000)	
Net loss					(5,567,000)		(5,567,000)	
Balances, December 31, 1994	40,000	--	9,322,762	4,661,000	20,230,000	(18,139,000)	(53,000)	6,699,000
Shares issued in connection with short-term notes			93,300	47,000	109,000			156,000
Sale of common shares			1,227,625	614,000	1,089,000			1,703,000
Conversion of Series A preferred shares to common	(40,000)	--	40,000	20,000	(20,000)			--
Shares issued in connection with 1995 business combination (Note 3)			1,440,736	720,000	2,633,000			3,353,000
Series B preferred shares issued (Note 3)	642,583	6,000			1,169,000			1,175,000
Accumulated translation adjustments						110,000	110,000	
Net loss					(8,892,000)		(8,892,000)	
Balances, December 31, 1995	642,583	$6,000	12,124,423	$6,062,000	$25,210,000	$(27,031,000)	$ 57,000	$ 4,304,000

</TABLE>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

OXIS International, Inc. (the "Company") develops, manufactures and markets selected therapeutic and diagnostic products. The Company's research and development efforts are concentrated principally in the development of products to diagnose, treat and prevent diseases associated with free radicals and reactive oxygen species. Headquartered in Portland, Oregon, the Company operates research and development facilities in Malvern, Pennsylvania, and near Paris, France.

The Company has historically licensed and sold pharmaceutical forms of superoxide dismutase (SOD) for human and veterinary use. In 1994, with the acquisitions of businesses as described in Note 3, the Company began selling therapeutic drug monitoring assays and research assays to measure markers of oxidative stress, and began performing custom assay development.

Therapeutic drug monitoring assays are manufactured by the Company in the United States and are sold to hospital clinical laboratories and reference laboratories by an in-house sales force and a network of distributors both within and outside the United States. Assays to measure markers of oxidative stress are manufactured by the Company in France and are sold to distributors for resale to researchers, primarily in Europe, the United States and Japan.

These financial statement have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities

in the normal course of business. The Company has incurred losses in each of the last three years, and at December 31, 1995, the Company's current liabilities exceeded its current assets by $1,469,000. These factors, among others, may indicate that the Company may be unable to continue as a going concern for a reasonable period of time. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is contingent upon its ability to obtain additional financing, and to generate revenue and cash flow to meet its obligations on a timely basis.

During the first quarter of 1996 the Company is seeking additional capital through a private placement of up to $4,000,000 of its Series C Preferred Stock. On March 4, 1996, the Company had closed the sale of 587,053 shares of Series C Preferred Stock for $763,000. If the Company is able to sell the entire $4,000,000 of Series C Preferred Stock, it still expects that additional capital will be required during 1996 to continue operating in accordance with its current plans. If the Company is unable to raise additional capital it intends to curtail its operations through the reduction of personnel and facility costs and by reducing its research

and development efforts. If the Company were to be unable to sufficiently curtail its costs in such a situation, it might be forced to seek protection of the courts through reorganization, bankruptcy or insolvency proceedings.

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The accompanying balance sheets include the accounts of the Company as well as its subsidiaries. The results of operations of the Company's French subsidiary since its purchase by the Company on September 7, 1994, are included in the accompanying statements of operations and cash flows. The functional currency of the Company's French subsidiary is the French franc. The French subsidiary's assets and liabilities are translated at the exchange rate at the end of the year, and its statement of operations is translated at the average exchange rates during the period for which its revenues and expenses are included in the consolidated statement of operations. Gains or losses resulting from foreign currency translation are accumulated as a separate component of shareholders' equity. All significant intercompany balances and transactions are eliminated in consolidation.

CASH EQUIVALENTS consist of money market accounts with commercial banks.

INVENTORIES are stated at the lower of cost or market. Cost has been determined by using the first-in, first-out and specific identification methods. Inventories at December 31, 1995 and 1994, consisted of the following:

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
Raw materials	$173,000	$179,000
Work in process	354,000	357,000
Finished goods	426,000	137,000
Total	$953,000	$673,000

</TABLE>

PROPERTY AND EQUIPMENT is stated at cost, or, in the case of property and equipment acquired in transactions accounted for by the purchase method, at the estimated fair market value at the date of the acquisition (which is then considered to be the Company's cost). Depreciation of equipment is computed using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the shorter of five years or the remaining lease term. Assets acquired under capital leases are being amortized over estimated useful lives of four to ten

years.

Property and equipment at December 31, 1995 and 1994, consisted of the following:

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
Furniture and office equipment	$ 346,000	$ 319,000
Laboratory and manufacturing equipment	707,000	649,000
Automobile	15,000	15,000
Leasehold improvements	806,000	710,000
Property and equipment, at cost	1,874,000	1,693,000
Accumulated depreciation and amortization	(782,000)	(395,000)
Property and equipment, net	$1,092,000	$1,298,000

</TABLE>

TECHNOLOGY - Technology for developed products and custom assays, which was acquired in the 1994 business combinations described in Note 3, is being amortized over estimated useful lives of seven to ten years. Accumulated amortization of technology for developed products and custom assays was $973,000 as of December 31, 1995 and $239,000 as of December 31, 1994. The Company periodically reviews net cash flows from sales of products and projections of net cash flows from sales of products on an undiscounted basis to assess recovery of intangible assets.

REVENUE RECOGNITION - The Company normally recognizes product sales upon shipment of the product to the customer. Product sales may be recorded on the scheduled shipment date if the customer has delayed shipment, but has agreed to accept title to the product and has paid for the product. Sales from custom assay development contracts is recognized as the work is performed. Revenue derived from royalties pursuant to license agreements is recognized after sales information is reported by licensees.

INCOME TAXES - The Company accounts for income taxes under statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" which requires deferred income taxes be provided to reflect temporary differences between financial and tax bases of assets and liabilities using presently enacted tax rates and laws.

NET LOSS PER SHARE - Net loss per share is computed based upon the average number of common shares outstanding and, if dilutive, the incremental shares issuable upon the assumed exercise of stock options or warrants and the assumed conversion of convertible debentures and preferred stock.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying amount reported in the balance sheet for cash and cash equivalents, certificates of deposit, accounts receivable, notes payable, customer deposits and accrued liabilities approximates fair value due to the short-term nature of the accounts. The carrying amount reported in the balance sheet for 8%

convertible subordinated debentures approximates fair value because the terms of the debentures were determined and the debentures were sold shortly before the end of 1995.

3. BUSINESS COMBINATIONS

On September 7, 1994, the Company acquired Bioxytech S.A., a French company, and International BioClinical, Inc. ("IBC"), an Oregon corporation. The name of Bioxytech S.A. was subsequently changed to OXIS International S.A. ("OXIS S.A.") OXIS S.A. was acquired through an exchange of shares that resulted in the Company owning in excess of 99% of the outstanding stock of OXIS S.A., which thus became a subsidiary of the Company. IBC was acquired through a merger with and into the Company, which (1) terminated the separate existence of IBC by merging it into the Company, and (2) resulted in the conversion of the outstanding stock of IBC into stock of the Company. Two of the Company's directors were also directors and major shareholders of IBC.

In exchange for the Bioxytech S.A. shares, the Company issued a total of 2,341,599 shares of the Company's common stock and 40,000 shares of the Company's non-voting preferred stock (which have subsequently been converted into 40,000 shares of common stock). In addition, the Bioxytech S.A. shareholders may receive up to 107,670 shares of the Company's capital stock if they meet certain participation levels in a contemplated private placement of equity securities of the Company.

The merger of IBC with and into the Company resulted in the conversion of IBC's common stock into 1,998,493 shares of the Company's common stock.

The acquisitions of OXIS S.A. and IBC have been accounted for as purchases and, accordingly, the acquired assets and liabilities were recorded at their estimated fair market values as of the date of acquisition. The aggregate purchase price of $9,811,000 (4,380,092 shares issued times the average per share closing price of the Company's common stock for the five days ended September 8, 1994, discounted 30% for certain trading restrictions and less costs of $274,000 directly attributable to issuance of stock in connection with the acquisitions) plus direct costs for the acquisitions of $881,000 have been allocated to the

assets and liabilities acquired. The Company also issued options to purchase 214,700 shares of the Company's common stock in connection with the acquisitions. No value was assigned to these options because the exercise price of the options was in excess of the market value of the common stock.

The total cost of the acquisitions of Bioxytech and IBC has been allocated to the assets acquired and liabilities assumed as follows:

<TABLE>
<CAPTION>

	OXIS S.A.	IBC	Total
<S>	<C>	<C>	<C>
Cash	$ 150,000	$ 123,000	$ 273,000
Other assets	369,000	611,000	980,000
Property, equipment and capitalized leases	2,434,000	294,000	2,728,000
Technology for developed products and custom assay development capabilities	1,503,000	3,995,000	5,498,000
Technology for in-process products	3,368,000	307,000	3,675,000
Less liabilities assumed	(2,011,000)	(451,000)	(2,462,000)
Total acquisition cost	$ 5,813,000	$4,879,000	$10,692,000

</TABLE>

The Company's consolidated results of operations include the operating results of the acquired companies since the acquisitions.

Approximately $3,675,000 ($.58 per share) of the total purchase price represented technology relating to research and development projects that were in process by the acquired companies that had no alternative future use other than the completion of these projects. In accordance with generally accepted accounting principles, these costs have been charged to operations immediately upon completion of the acquisitions.

The following table summarizes the unaudited pro forma combined results of operations for the years ended December 31, 1994 and 1993 as if the acquisitions had occurred at the beginning of the years presented:

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Total revenues	$ 5,809,000	$ 6,736,000
Net loss	$(4,742,000)	$(5,207,000)
Net loss per share (based on 9,322,762 shares outstanding)	$ (.51)	$ (.56)

</TABLE>

The above table includes, on an unaudited pro forma basis, the Company's financial information for the years ended December 31, 1994 and 1993, combined with the financial information of OXIS S.A. and IBC for the same twelve-month periods. The above table excludes the one-time $3,675,000 charge for purchased in-process technology arising from the acquisitions. Pro forma results for the year ended December 31, 1993 include non-recurring costs of $1,531,000 in connection with a control contest.

The unaudited pro forma combined results of operations are presented for illustrative purposes only and are not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

On July 19, 1995, the Company consummated the acquisition of Therox Pharmaceuticals, Inc. ("Therox") pursuant to a transaction wherein Therox was merged with and into a wholly-owned subsidiary of the Company. Therox was a Philadelphia-based start-up company focused on the development of therapeutics to treat diseases associated with damage from free radicals. The Company issued 1,440,736 shares of its common stock to Therox stockholders in exchange for all of the Therox capital stock. In addition, the acquisition agreement provides for payment of up to $2,000,000 by the Company to the Therox stockholders based on the successful commercialization of the Therox technologies.

The acquisition of Therox has been recorded as a purchase and, accordingly, the acquired assets and liabilities were recorded at their estimated fair values as of the date of acquisition. The aggregate purchase price of $3,353,000 (1,440,736 shares issued times the average per share closing price of the Company's common stock for the five days ended July 20, 1995, discounted 30% for certain trading restrictions) has been allocated to the assets and liabilities acquired.

The cost of the acquisition of Therox has been allocated to the assets acquired and liabilities assumed as follows:

<TABLE>
<CAPTION>

<S>	<C>
Cash	$ 143,000
Equipment	16,000
Technology for in-process products	3,329,000
Other assets	23,000
Less liabilities assumed	(158,000)
Acquisition cost	$3,353,000

</TABLE>

The Company's consolidated results of operations include the operating results of the acquired company since the acquisition.

Approximately $3,329,000 of the purchase price represented technology related to research and development projects that are in process and that has no alternative future use other than the completion of these projects. Accordingly, these costs have been charged to operations immediately upon completion of the acquisition.

The following table presents the unaudited pro forma combined results of operations for the years ended December 31, 1995 and 1994 as if the acquisition had occurred at the beginning of the periods presented:

<TABLE>
<CAPTION>

	1995	1994
<S>	<C>	<C>
Total revenues	$ 5,136,000	$ 3,470,000
Net loss	$(5,990,000)	$(6,088,000)
Net loss per share (based on 12,124,423 shares outstanding)	$ (.49)	$ (.50)

</TABLE>

The above table includes, on an unaudited pro forma basis, the Company's financial information for the years ended December 31, 1995 and 1994, combined with the financial information of Therox for the same periods. The above table excludes the one-time $3,329,000 charge for purchased in-process technology arising from the 1995 acquisition, but includes non-recurring costs of $3,675,000 for purchased in-process technology from the Company's September 1994 business acquisitions.

The unaudited pro forma combined results of operations are presented for illustrative purposes only and are not necessarily indicative of the operating results that would have occurred had the acquisition been consummated at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

Simultaneously with the Therox acquisition, a Series B Preferred Stock Purchase Agreement was entered into between the Company and two venture capital firms (S.R. One, Limited and Brantley Venture Partners II, L.P.) which were major stockholders of Therox. Pursuant to this agreement, the Company sold 642,583 shares of its Series B Preferred Stock for an aggregate price of $1,500,000.

Costs of approximately $325,000 directly attributable to the issuance of the Series B Preferred Stock and the common stock issued in the Therox acquisition have been recorded as a reduction in the proceeds from the issuance of the shares.

4. NOTES PAYABLE

Notes payable at December 31, 1995 consisted of the following:

8% notes payable to certain shareholders who are former Bioxytech S.A. shareholders, due February 5, 1996, secured by assets relating to certain of the Company's diagnostic products	$766,000
Note payable to Sanofi S.A., due May 4, 1996, interest at prime plus 2% (10-1/2% as of December 31, 1995), secured by all of the Company's assets	600,000
Liability, without interest, under inventory purchase agreement, due May 1997 or earlier if 75% of the related inventory is sold	250,000

	$1,616,000
	==========

The shareholders who hold the 8% notes have commitments to invest an amount at least equal to the note balances in stock of the Company. During March 1996 the Company is negotiating with these shareholders terms for converting these notes to stock of the Company.

5. CAPITALIZED LEASES

The Company's French subsidiary leases certain equipment, furniture and fixtures under capital leases. The future minimum lease payments on these capital leases as of December 31, 1995, were as follows:

<TABLE>
<CAPTION>

Year ending December 31:		
<S>	<C>	<C>
	1996	$309,000
	1997	47,000

Total minimum capital lease obligations		356,000
Less amounts representing interest		26,000

Present value of net minimum obligation		330,000
Less amount due within one year		283,000

Long term obligation under capital leases		$ 47,000
		========

</TABLE>

Leased assets, which consist principally of laboratory and office equipment, are reported in the December 31, 1995, balance sheet at $1,418,000 less accumulated amortization of $220,000.

6. 8% CONVERTIBLE SUBORDINATED DEBENTURES

In November and December 1995, the Company completed a private placement pursuant to which $1,255,000 of its 8% Convertible Subordinated Debentures were issued. The debentures are unsecured and are subordinated to other obligations of the Company up to an aggregate of $3,000,000. The Debentures are due December 31, 1997; interest is payable semiannually on June 30 and December 31.

The debentures are convertible into shares of the Company's common stock at the option of the holders. Any time after six months following closing of the private placement, the Company may require conversion of the debentures. The debentures are convertible at a conversion price of $1.25 per common share. However, the conversion price shall be reduced to $.65 per share if the closing price of the Company's common stock is less than $.65 for fifteen consecutive trading days. In such case, the debentures could be converted into a maximum of 1,930,769 shares of common stock.

7. SHAREHOLDERS' EQUITY

PREFERRED STOCK - Terms of the preferred stock are to be fixed by the Board of Directors at such time as the preferred stock is issued. The 40,000 shares of Series A Preferred Stock issued during 1994 were nonvoting and were converted to common stock on a one share for one share basis during 1995. The 642,583 shares of Series B Preferred Stock are convertible into common stock on a one-for-one basis and have the same voting rights as the common stock. The Series B Preferred Stock has certain preferential rights with respect to liquidation and dividends.

In February and March 1996, the Company has issued 587,053 shares of Series C Preferred Stock. Each share of Series C Preferred Stock is initially convertible into one share of the Company's common stock at the option of the holder at any time. After six months following the closing of the sales of Series C preferred Stock, the conversion ratio may be adjusted under certain circumstances, and after eight months following the closing, the Company may

have the right to automatically convert the Series C Preferred Stock into common stock under certain circumstances. The Series C Preferred Stock has the same voting rights as the Company's common stock based on the number of shares into which the Series C Preferred Stock is convertible, subject to adjustment in certain circumstances.

STOCK WARRANTS - In prior years, the Company issued warrants to purchase shares of common stock to certain officers and key employees (none of whom any longer hold a position with the Company) and to former directors. These warrants are exercisable at $2.875 per share and expire through 1999. At December 31, 1995 and 1994, warrants to purchase 1,012,500 shares were exercisable. No warrants were exercised during the years ended 1993, 1994 or 1995.

In connection with the issuance of common stock in May 1995, the Company issued to its placement agent a warrant to purchase 122,763 shares of common stock at $2.89 per share. This warrant was immediately exercisable upon issuance and remained outstanding at December 31, 1995.

Warrants to purchase 200,800 common shares at $2.00 per share were issued to purchasers of the Company's 8% Convertible Subordinated Debentures and remained outstanding at December 31, 1995. The number of common shares which may be purchased pursuant to these warrants may be increased in the event that the number of common shares into which the related debentures may be converted is increased. The maximum number of common shares to which these warrants might entitle the holders is 386,154.

Also in connection with the issuance of its 8% Convertible Subordinated Debentures, the Company issued to its placement agent warrants to purchase 100,400 shares of common stock at $1.375 per share. These warrants were immediately exercisable upon issuance and remained outstanding at December 31, 1995.

STOCK OPTIONS - In September 1994, the Company's shareholders approved the 1994 Stock Incentive Plan and the reservation of 400,000 shares of the Company's common stock for issuance thereunder. In August 1995, the shareholders approved an amendment to the plan increasing the shares reserved for issuance thereunder to 1,200,000. The plan permits granting stock options to acquire shares of the Company's common stock, awarding stock bonuses of the Company's common stock, and granting stock appreciation rights. Options granted and outstanding under the plan are summarized as follows:

<TABLE>
<CAPTION>

	1995		1994	
	Shares	Price	Shares	Price
<S>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	90,000	$3.13 - $3.50	--	
Granted	317,900	$2.25 - $3.50	90,000	$3.13 - $3.50
Forfeitures	(25,000)	$2.25	--	
Outstanding at end of year	382,900	$2.25 - $3.50	90,000	$3.13 - $3.50
Exercisable at end of year	219,294	$2.25 - $3.50	75,000	$3.50

</TABLE>

8. INCOME TAXES

INCOME TAX PROVISION - Income tax provisions were not necessary in 1995, 1994 and 1993 due to net losses.

DEFERRED TAXES - Deferred taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating losses and tax credit carryforwards.

The tax effects of significant items comprising the Company's deferred taxes as of December 31 were as follows:

<TABLE>
<CAPTION>

United States taxes:	1995	1994
<S>	<C>	<C>
Deferred tax assets:		
Federal net operating loss carryforward and capitalized research and development expenses	$ 4,829,000	$ 2,110,000
Federal R&D tax credit carryforward	495,000	465,000
State net operating loss carryforward and capitalized research and development expenses	125,000	372,000
Deferred tax liabilities - book basis in excess of noncurrent assets acquired in the acquisition of IBC	(1,338,000)	(1,575,000)
Net deferred tax assets	4,111,000	1,372,000
Valuation allowance	(4,111,000)	(1,372,000)
Net deferred taxes	$ --	$ --

French taxes:	1995	1994
Deferred tax assets:		
Net operating loss carryforward	$ 5,721,000	$ 5,286,000
Impact of temporary differences	(225,000)	453,000
Total	5,496,000	5,739,000
Valuation allowance	(5,496,000)	(5,739,000)
Net deferred taxes	$ --	$ --

</TABLE>

Temporary differences for French taxes result primarily from leases treated as operating leases for French tax reporting and as capital leases in the consolidated financial statements.

The tax benefits ($5,136,000) of the net operating losses of $15,410,000 which existed at the date of acquisition (September 7, 1994) of the French subsidiary will be recorded as a reduction of the net unamortized balance of property, equipment, capitalized lease assets and intangible assets of $3,147,000 when and if realized, and the remaining benefit will be recorded as a reduction of income tax expense.

Statement of Financial Accounting Standards No. 109 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of

the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Because of the Company's recent history of operating losses, management has provided a valuation allowance for its net deferred tax assets.

TAX CARRYFORWARDS - At December 31, 1995, the Company had net operating loss carryforwards of approximately $5,120,000 to reduce United States federal taxable income in future years, and research and development tax credit carryforwards of $495,000 to reduce United States federal taxes in future years. In addition, the Company's French subsidiary had operating loss carryforwards of $17,165,000 (84,183,000 French francs) to reduce French taxable income in future years. These carryforwards expire as follows:

<TABLE>
<CAPTION>

Year of expiration	United States net operating loss carryforward	R&D tax credit carryforward	French operating loss carryforward
<S>	<C>	<C>	<C>
1996	$1,219,000		$ 1,655,000
1997	2,670,000		1,270,000
1998	208,000		1,312,000
1999	111,000		233,000
2000	--	--	--
2001-2010	912,000	$495,000	--
No expiration	--	--	12,695,000
	$5,120,000	$495,000	$17,165,000

</TABLE>

Utilization of the United States tax carryforwards is subject to certain restrictions in the event of a significant change (as defined in Internal Revenue Service guidelines) in ownership of the Company.

9. MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK

One domestic customer and three foreign licensees have each accounted for significant portions of the Company's revenues during the past three years. The percentages of total revenues derived from sales to, and royalties from, these major customers are as follows:

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Domestic customer	18%	35%	50%
Spanish licensee	16%	18%	8%
German licensee	2%	9%	23%
Italian licensee	--	2%	7%

</TABLE>

The Company's domestic customer to whom sales of bovine superoxide dismutase ("bSOD") accounted for 18%, 35% and 50% of the Company's revenues in 1995, 1994 and 1993, respectively, announced in the fourth quarter of 1995 that the clinical trial in which it was using bSOD purchased from the Company failed to show the desired results. Therefore, sales of bSOD to this customer are not expected to continue.

The Company limits its foreign exchange risk by buying and selling bulk bSOD in a single currency, the Dutch guilder. The Company maintains a bank account in The Netherlands for receipt and disbursement of Dutch guilders and had the equivalent of $81,000 and $659,000 in that account at December 31, 1995 and 1994, respectively. Foreign currency transaction gains and losses were not material.

10. GEOGRAPHIC AREA INFORMATION

The Company operates in a single industry segment: the development, manufacture and marketing of therapeutic and diagnostic products. The Company's foreign operations consist of research and development and manufacturing facilities and certain marketing activities conducted by the

Company's subsidiary in France. Sales and costs associated with bSOD manufactured in the Netherlands are considered to be United States operations, since the contract to manufacture bSOD and all related sales activities are administered in the United States. Similarly, royalties from foreign customers that relate to bSOD-based products are considered to be export sales from the United States, since the product was developed in the United States.

Sales, operating income and identifiable assets, classified by the major geographic areas in which the Company operates, are as follows:

<TABLE>
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Revenues from unaffiliated customers:			
United States	$ 2,686,000	$ 2,053,000	$ 1,887,000
Export sales from the U.S.	1,878,000	1,257,000	1,157,000
France	572,000	160,000	--
Total	$ 5,136,000	$ 3,470,000	$ 3,044,000
Operating income (loss):			
United States	$(5,653,000)	$(1,410,000)	$(1,638,000)
France	(3,110,000)	(4,191,000)	--
Total	$(8,763,000)	$(5,601,000)	$(1,638,000)
Identifiable assets:			
United States	$ 7,824,000	$ 9,587,000	$ 3,124,000
France	3,866,000	2,570,000	--
Eliminations	(1,820,000)	(963,000)	--
Total	$ 9,870,000	$11,194,000	$ 3,124,000

</TABLE>

11. LEASE COMMITMENTS

The Company leases its facilities in Oregon under an operating lease that expires in 1997, and leases its facilities in Pennsylvania and France under operating leases that expire in 1998. Future lease payments are scheduled as follows:

<TABLE>
<CAPTION>

<S>	<C>
1996	$480,000
1997	436,000
1998	245,000

</TABLE>

Rental expense included in the accompanying statements of operations was $492,000 in 1995, $193,000 in 1994 and $75,000 in 1993.

12. EUROPEAN REGULATORY DEVELOPMENTS

The European market for the Company's bovine bSOD was adversely impacted by a series of regulatory developments in 1994.

The Italian Health Ministry withdrew the marketing authorization of all pharmaceutical products composed of orgotein, including Oxinorm (produced from the Company's product). As indicated in Note 9, the Company's revenues from its Italian licensee have ceased, and the Company does not anticipate additional sales or royalties from Oxinorm in Italy. During 1995, SmithKline

Beecham Farmaceutici S.p.A., the Company's licensee in Italy, sold its remaining bulk Oxinorm inventory to the Company.

During 1994 the Company was also notified that the governments of Austria and Germany had asked Grunenthal, the Company's licensee for those countries, to withdraw its Peroxinorm brand of orgotein from the Austrian and German markets. Grunenthal has also discontinued distributing Peroxinorm in several other countries where sales were dependent upon the German registration. As a result, the Company anticipates that royalties from Grunenthal for the foreseeable future will be substantially less than in previous years.

Because of the action of regulatory authorities in other European countries, the Company's licensee for Spain has had informal discussions with Spanish regulatory authorities regarding the Company's bSOD product. Although no action has been taken by those authorities with regard to the Company's product, future sales in Spain may be affected by either regulatory action in Spain, or safety concerns stemming from such actions in other countries.

13. CONTROL CONTEST EXPENSES

In 1993, the Company incurred expenses of $1,531,000 ($.31 per share) in connection with a contest for management control of the Company. Costs incurred by current officers and directors were advanced by IBC. The President and the Chairman of the Company were major shareholders of IBC. Reimbursement of IBC for such expenses was approved at the Company's 1993 annual shareholders' meeting.

14. 401(K) SAVINGS PLAN

The Company has a 401(k) saving plan (the "Plan") which covers all United States employees who meet certain minimum age and service requirements. The Company's matching contribution to the Plan for each year is 100% of the first $1,000 of each employee's salary deferral and 33-1/3% of the next $3,000 of salary deferral. The Company's contributions have not been material.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
OXIS International, Inc.:

We have audited the accompanying consolidated balance sheets of OXIS International, Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the management of OXIS International, Inc. 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 consolidated 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, such consolidated financial statements present fairly, in all material respects, the financial position of OXIS International, Inc. and subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

The accompanying financial statements for the year ended December 31, 1995, have been prepared assuming that the Company will continue as a going concern. The Company is engaged in developing, manufacturing and marketing selected therapeutic and diagnostic products. As discussed in Note 1 to the financial statements, the Company has incurred losses in each of the last three years, and at December 31, 1995, the Company's current liabilities exceeded its current assets by $1,469,000, raising substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

DELOITTE & TOUCHE LLP

March 7, 1996
Portland, Oregon

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item is incorporated herein by reference from the material contained under the caption "Proposal No. 1-Election of Directors" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

Forms 3 Initial Statement of Beneficial Ownership of Securities were not timely filed upon the appointment of Mr. Lang and Mr. McCamant to the Board of Directors in January 1996. Late filings of the Forms 3 have been made.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference from the material contained under the caption "Compensation of Executive Officers" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required under this item is incorporated herein by reference from the material contained under the caption "Proposal No. 1-Election of Directors" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required under this item is incorporated herein by reference from the material contained under the caption "Proposal No. 1-Election of Directors" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A.

PART IV

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

(a) The following documents are filed as part of this report:

1. FINANCIAL STATEMENTS

See pages 19 to 39.

2. FINANCIAL STATEMENT SCHEDULES

Schedules are omitted because they are not applicable or the required information is included in the financial statements and notes thereto.

3. EXHIBITS

See Exhibit Index - page 44.

(b) Reports on Form 8-K.

The Company filed no reports on Form 8-K during the fourth quarter of 1995.

(c) Exhibits specified by item 601 of Regulation S-K.

See Exhibit Index - page 44.

(d) Financial statement schedules required by Regulation S-K are omitted because they are not applicable or the required information is included in the financial statements and notes hereto.

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.

Dated: March 22, 1996

OXIS INTERNATIONAL, INC.
Registrant

By: /s/ Anna D. Barker

Anna D. Barker
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jon S. Pitcher

Jon S. Pitcher
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following directors on behalf of the Registrant.

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>
s/ Anna D. Barker	March 22, 1996	s/ Timothy G. Biro	March 22, 1996
Anna D. Barker	Date	Timothy G. Biro	Date
s/ Stuart S. Lang	March 22, 1996	s/ Gerald D. Mayer	March 22, 1996
Stuart S. Lang	Date	Gerald D. Mayer	Date

s/ James D. McCamant	March 22, 1996	s/ David Needham	March 22, 1996
James D. McCamant	Date	David Needham	Date

s/ Ray R. Rogers	March 22, 1996	s/ A.R. Sitaraman	March 22, 1996
Ray R. Rogers	Date	A.R. Sitaraman	Date

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT	PAGE NUMBER
<S>	<C>	<C>
2 (a)	Agreement and Plan of Reorganization and Merger between OXIS International, Inc., OXIS Acquisition Corporation and Therox Pharmaceuticals, Inc. Dated July 18, 1995	(1)
2 (b)	Amendment No. 1 to Agreement and Plan for Reorganization and Merger between OXIS International, Inc., OXIS Acquisition Corporation and Therox Pharmaceuticals, Inc.	46
3 (a)	Restated Certificate of Incorporation as filed February 16, 1995	(2)
3 (b)	Certificate of Designations, Preferences, and Rights of Series B Preferred Stock	(3)
3 (c)	Certificate of Amendment of Restated Certificate of Incorporation of OXIS International, Inc. as filed January 29, 1996.	48
3 (d)	Bylaws of the Company as amended on June 15, 1994	(4)
4 (a)	Subscription and Purchase Agreement 8% Convertible Subordinated Debentures Due December 31, 1997	50
10 (a)	1987 Stock Purchase Warrants	(5)
10 (b)	1988 Stock Purchase Warrants	(6)
10 (c)	Lease agreement between Bioxytech S.A. and Sofibus	(7)
10 (d)	Form of 8% Convertible Subordinated Debentures Due December 31, 1997	(8)
10 (e)	Form of Warrant to Purchase Common Stock	(9)
10 (f)	OXIS International, Inc. Series B Preferred Stock Purchase Agreement dated July 18, 1995	(10)
10 (g)	Security Agreement dated February 7, 1995 between Alta-Berkeley L.P. II and Innolion S.A. and OXIS International, Inc., and five related promissory notes	(11)

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT	PAGE NUMBER
<S>	<C>	<C>
10 (h)	Term Loan Agreement dated as of May 2, 1995 between OXIS International, Inc., Bioxytech, S.A. and related Promissory Note in the principal amount of $600,000	(12)

21 (a)	Subsidiaries of OXIS International, Inc.	76
23 (a)	Independent Auditors' Consent	77
27 (a)	Financial data schedule	78

</TABLE>

(1) Incorporated by reference to the Company's Current Report on Form 8-K dated July 19, 1995.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for 1994 - Exhibit 3(a).

(3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.

(4) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for 1992 - Exhibit 10(b).

(6) Incorporated by reference to the Company's Annual Report on Form 10-K for 1992 - Exhibit 10(c).

(7) Incorporated by reference to the Company's Annual Report on Form 10-K for 1994.

(8) Incorporated by reference to the Company's Current Report on Form 8-K dated January 3, 1996.

(9) Incorporated by reference to the Company's Current Report on Form 8-K dated January 3, 1996.

(10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.

(11) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

(12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.

EXHIBIT 2(b)

AMENDMENT NO. 1
TO AGREEMENT AND PLAN OF REORGANIZATION AND MERGER

This is an amendment (the "Amendment") to that certain Agreement and Plan of Reorganization and Merger dated July 18, 1995 (the "Agreement") by and between OXIS International, Inc., a Delaware corporation (the "Company"), OXIS Acquisition Corporation, a Delaware corporation ("OXISub"), Therox Pharmaceuticals, Inc., a Delaware corporation ("Therox") and certain holders of the capital stock of Therox (the "Therox Holders"). All capitalized terms used in this Amendment and not otherwise defined shall have the meanings set forth in the Agreement.

RECITALS

A. Pursuant to the terms of the Agreement, the parties to the Agreement have consummated the transactions contemplated by the Agreement, including without limitation the merger of Therox into OXISub such that OXISub is the surviving corporation and a wholly-owned subsidiary of the Company and each of the former stockholders of Therox has become a stockholder of the Company.

B. The parties hereto desire to amend certain of the terms of the Agreement, as more fully set forth hereafter, with respect to the potential obligation of the Company to make certain payments to the Therox Stockholder Representative on behalf of the Therox Holders for certain technologies of the former Therox, to provide that the Company shall make any such payments only in cash, rather than in shares of the Company's common stock or in cash, at its election.

Now, therefore, in consideration of the premises and the mutual covenants and conditions herein contained, the parties hereto hereby agree as follows:

AGREEMENT

1. Section 2.4 to the Agreement is hereby amended by the deletion of the fourth sentence of such paragraph and the replacement of such sentence by the following sentence: "All such payments shall be made in cash."

2. Except as specifically amended hereby, the Agreement shall remain unaltered and in full force and effect.

IN WITNESS WHEREOF, the Company, OXISub (on it own behalf and as successor in interest of Therox), and the Therox Stockholder Representative (on behalf of the former Therox Holders) have executed this Amendment as of the date first above written.

THEROX STOCKHOLDER REPRESENTATIVE
(on behalf of the Therox Holders)

By: /s/ Timothy G. Biro

Timothy G. Biro

OXIS INTERNATIONAL, INC.

By: /s/ Ray R. Rogers

Ray R. Rogers
Chairman of the Board

OXIS ACQUISITION CORPORATION
(on its own behalf and as
successor in interest of
Therox)

By: /s/ Ray R. Rogers

Ray R. Rogers
Chairman of the Board

EXHIBIT 3(c)

CERTIFICATE OF AMENDMENT OF

RESTATED CERTIFICATE OF INCORPORATION

OF

OXIS INTERNATIONAL, INC.

OXIS International, Inc., a Delaware corporation (the "Corporation"), DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation, at a duly called meeting of the Board of Directors or by a unanimous written consent of the directors, adopted a resolution proposing and declaring advisable the following amendment to the Restated Certificate of Incorporation of the Corporation:

"RESOLVED that the Restated Certificate of Incorporation of this corporation, OXIS International, Inc., a Delaware corporation (the "Company") be amended as follows:

1. Section B.2(b) of the Certificate of Designations, Preferences and Rights of Series B Preferred Stock of the Company (the "Series B Certificate") is hereby amended to read in its entirety as follows:

"(b) The number of directors shall be set as provided in the Bylaws of the Corporation. So long as any shares of Series B Preferred Stock remain outstanding, the holders of the Series B Preferred Stock outstanding shall vote together with the Common Stock as a single class with respect to the election of directors."

2. Section B.2(c) of the Series B Certificate is hereby deleted in its entirety."

SECOND: That the foregoing amendment was duly adopted in accordance with the applicable provisions of Section 242 of the General Corporation Law of the State of Delaware and Section B.5 of the Corporation's Certificate of Designations, Preferences and Rights of Series B Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Amendment of its Restated Certificate of Incorporation to be duly executed by its Chairman of the Board and attested to by its Secretary this ____ day of January, 1996.

OXIS INTERNATIONAL, INC.

By: /s/ Ray R. Rogers
Ray R. Rogers
Chairman of the Board

ATTEST:

/s/ Jon S. Pitcher
Jon S. Pitcher
Secretary

EXHIBIT 4(a)

SUBSCRIPTION AND PURCHASE AGREEMENT

UP TO 60 UNITS

8% CONVERTIBLE SUBORDINATED DEBENTURES DUE DECEMBER 31, 1997

WARRANT TO PURCHASE SHARES OF COMMON STOCK

THIS SUBSCRIPTION AND PURCHASE AGREEMENT (the "Agreement") is entered into as of the ___ day of November, 1995 by and between OXIS INTERNATIONAL, INC., a Delaware corporation (the "Company"), and _____ (the "Investor").

In consideration of the mutual promises, representations, warranties, covenants and conditions set forth in this Agreement, the Company and the Investor mutually agree as follows:

ARTICLE 1

DESCRIPTION OF PROPOSED FINANCING

1.1 Authorization of Sale of Units. The Company has authorized the offer, issuance and sale (the "Offering") of a maximum of 60 Units, each Unit consisting of U.S. $50,000 in aggregate principal amount of eight percent (8%) convertible subordinated debentures (the "Debentures") and a Warrant ("Warrant") to purchase 8,000 shares of the Company's Common Stock at U.S. $2.00 per share. The Company, upon its sole discretion, may increase the number of Units sold in the Offering. The Debentures shall be in substantially the form attached as Exhibit A hereto. The Warrant shall be in substantially the form attached as Exhibit B hereto.

1.2 Purchase and Sale of the Units. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties contained herein, the Company agrees to sell to the Investor and to other investors which sign similar forms of Subscription and Purchase Agreement the Units (consisting of Debentures and Warrants) for which each such Investor shall subscribe. The exact amount of the Investor's subscription is set forth in Section 13.1 hereof. The purchase price of each Unit is U.S. $50,000.

1.3 Closing. Closing of the purchase and sale of the Units contemplated by this Agreement (herein the "Closing") shall take place at such time as agreed between the Company and the Investor. At the Closing, the Company shall deliver to the Investor one or more Debentures and Warrants to be purchased by it made payable to the order of such Investor, against delivery to the Company by the Investor of a certified or cashier's check (or other form of payment acceptable to the Company) in the amount of the purchase price of the Units.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the Investors that:

2.1 Disclosure. The Company has provided to the Investor, and Investor has carefully reviewed, the Company's Confidential Private Placement Memorandum, dated November 1, 1995 (the "Memorandum"), which includes as exhibits, without limitation, the Company's Business Plan dated October 1995 and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and its quarterly reports on Form 10-Q for the quarterly periods ended March 31, 1995 and June 30, 1995 in addition to certain Risk Factors disclosure (collectively, the "Offering Documents"). The Company has fully provided the Investor with all the information which the Investor has requested for deciding whether to purchase the Units.

2.2 Binding Obligation. This Agreement and each additional agreement expressly contemplated by this Agreement, constitute a valid and legally binding obligation of the Company.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF THE INVESTOR

3.1 High Risk Investment. The Investor is aware that investment in the Units involves a high degree of risk. The Investor represents that it has read and carefully considered the disclosures set forth in this Agreement, including the risk factors enumerated herein and in the Offering Documents, and it understands that an investment in this Offering should be considered only by a person able to withstand a total loss of its investment.

3.2 Binding Obligations. This Agreement and each additional agreement expressly contemplated by this Agreement, constitute a valid and legally binding obligation of the Investor.

3.3 Corporate Investors. If the Investor is a corporation, it hereby represents and warrants that:

(b) Organization and Standing. The Investor is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation, and has all requisite corporate power and authority to own its properties and to carry on its business as now conducted.

(a) Authorization. All corporate action on the part of the Investor, its officers and directors necessary for the authorization, execution and delivery of this Agreement and all additional agreements expressly contemplated by this Agreement and the performance of all obligations of the Investor hereunder have been taken or will be taken prior to the Closing.

ARTICLE 4

Federal and Other Securities Laws

4.1 Investment Representations and Warranties. As an inducement to the Company to sell Units to the Investor, the Investor hereby agrees, represents and warrants, as of the date of acceptance of the Investor's subscription:

(a) By reason of the Investor's knowledge and experience in financial and business matters in general, and investments in particular, the Investor is able to evaluate the merits and risks of an investment in the Securities. For purposes of this Article 4, the term "Securities" shall mean each of the Debentures, Warrants and shares ("Shares") of Company Common Stock into which Debentures may be converted and Warrants may be exercised.

(b) The Investor's income and net worth are such that the Investor is not now required, and does not contemplate in the future being required, to dispose of any portion of any investment in the Securities to satisfy any existing or contemplated undertaking.

(c) In evaluating the merits and risks of an investment in the Securities, the Investor has relied solely upon the Memorandum and the advice of his, her, or its legal counsel, tax advisors, and/or investment advisors.

(d) The Investor is able to bear the economic risk of an investment in the Securities, including without limiting the generality of the foregoing, the risk of losing part or all of the Investor's investment in the Securities, and the inability to sell or transfer the Securities for an indefinite period of time or at a price which would enable the Investor to recoup his, her, or its investment in the Securities.

(e) The Investor's purchase of the Securities is as principal, solely for the Investor's own account, for investment, and not with an intent to sell, or for sale in connection with any distribution of the Securities, and no other person has any interest in or right with respect to the Securities, nor has the Investor agreed to give any person any such interest or right in the future. The Investor is not purchasing the Securities as a result of any

material information about the Company's affairs that has not been publicly disclosed.

(f) The Investor is an "accredited investor" as that term is defined in Section 501(a) of Regulation D of the Securities Act of 1933, as amended (the "Securities Act"). An "accredited investor" includes, among other persons and entities, (1) a natural person whose net worth, or joint net worth with that person's spouse, exceeds $1,000,000; (2) a natural person who has had income in excess of $200,000 in each of the two most recent years, or, with that person's spouse, in excess of $300,000 in those years, and who expects to have at least that level of income in the current year; (3) a corporation, partnership or similar business entity, not formed for the specific purpose of acquiring the Securities, with total assets in excess of $5,000,000; and (4) any entity in which all of the equity owners are accredited investors.

(g) If the Investor is a corporation, partnership or trust, the person executing this Agreement on behalf of such entity has all right, power and authority to so execute and deliver this Agreement on behalf of such entity and that the above representations, warranties, agreements, acknowledgments and understandings shall be deemed to have been made on behalf of the person or persons for whose benefit such Securities are being acquired.

(h) The Company has afforded the Investor and his, her, or its advisors full and complete access to all information with respect to the Company and its business and financial condition (to the extent that such information was possessed by the Company or could be acquired by the Company without unreasonable effort or expense) that the Investor and his, her, or its advisors deemed necessary in order to evaluate the merits and risks of an investment in the Securities. The Investor further represents and warrants that his, her, or its advisors have received satisfactory and complete information concerning the business and financial condition of the Company in response to all inquiries made by them in respect thereof.

(i) The offer to sell Securities was directly communicated to the Investor, in such a manner that the Investor was able to ask questions and receive answers concerning the terms of this transaction and that at no time was the Investor presented with or solicited by any leaflet, newspaper or magazine article, radio or television advertisement or any other form of general advertising, or invited to any promotional meeting, otherwise than in connection and concurrently with such communicated offer. No oral representations have been made or oral information furnished to the Investor in connection with the placement of Securities which were in any way inconsistent with the Memorandum or its exhibits.

4.2 Further Acknowledgments By Investor. The Investor represents and warrants that the Investor has been advised that:

(a) The Securities have not been registered under the Securities Act, or under the securities laws of any state and that the Securities must be held until the Securities are registered under the Securities Act and applicable state securities laws or an exemption from such registration is available.

(b) No federal or state agency, including the U.S. Securities and Exchange Commission (the "Commission"), or the securities commission or authorities of any state or regulatory jurisdiction has approved or disapproved the Securities, passed upon or endorsed the merits of the Offering or the accuracy or adequacy of the Memorandum, or made any finding or determination as to the fairness of the Securities or an investment in the Securities.

(c) The Securities that the Investor will be acquiring are "Restricted Securities" as that term is defined in Rule 144 promulgated under the Securities Act; that the exemption from registration under Rule 144 will not be available in any event for at least two years from the date of issuance, and even then will not be available unless (1) a public trading market then exists for said Securities, (2) adequate information concerning the Company is then available to the public, and (3) other terms and conditions of Rule 144 are complied with; and that any sale of the Securities may be made by the Investor only in accordance with such terms and conditions.

(d) Any and all certificates representing the Securities shall bear a legend describing the aforementioned restrictions on the transfer of such Securities which legend will not be removed until the Securities have been registered under the Securities Act, the Securities are sold in accordance with any of the provisions of Rule 144 or Rule 144A under the Securities Act, or the Securities qualify for resale under Rule 144(k) promulgated under the Securities Act.

(e) By executing this Agreement, the Investor further represents that it does not have any contract, undertaking, agreement, or arrangement with any persons in violation of any United States federal or state law to sell, transfer, or grant participations to such person, or to any third person, with respect to the Securities. The Securities are being acquired for investment for the Investor's own account and not with a view to, or for resale in connection with, any distribution thereof in the United States or to United States person; the Investor realizes that the Company's ability to offer the Securities to the Investor without compliance with the registration requirements of the Securities Act has been predicated, in part, by reliance of the Investor's representations. THE INVESTOR FURTHER UNDERSTANDS THAT TRANSFER OF THE SECURITIES IN THE UNITED STATES AND TO UNITED STATES PERSONS IS RESTRICTED UNDER THE SECURITIES ACT AND UNDER STATE SECURITIES LAWS, NOTWITHSTANDING THAT THE OFFER AND SALE OF THE SECURITIES HAS BEEN MADE IN RELIANCE ON REGULATIONS PROMULGATED UNDER THE SECURITIES ACT.

(f) The Investor represents that he is not a "U.S. person." For purposes of this transaction, a U.S. person includes any of the following:

(1) a natural person (regardless of citizenship) resident in the United States;

(2) a partnership or corporation organized or incorporated under United States, state or territorial laws;

(3) an estate of which any executor or administrator is a U.S. person;

(4) a trust of which any trustee is a U.S. person;

(5) an agency or branch of a foreign entity located in the United States;

(6) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person;

(7) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated or (if an individual) resident in the United States; or

(8) a partnership or corporation if:

(A) organized or incorporated under the laws of any foreign jurisdiction; and

(B) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated and owned by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts.

IF ANY OF THE FOREGOING STATEMENTS IN THIS PARAGRAPH (F) APPLY TO THE INVESTOR, THE OFFER AND SALE OF THE SECURITIES CANNOT BE MADE IN RELIANCE UPON REGULATION S.

(g) The Investor represents that the offer and proposed sale of the Securities is an "offshore transaction." For purposes of the offer and sale of the Securities, the transaction is an offshore transaction if:

(1) the offer is not made to a person in the United States; and

(2) at the time the Investor made the investment decision, paid the consideration and executed this Agreement, the Investor was outside the United States;

The Investor hereby represents that the statements set forth in paragraphs g(1) and (2) are true.

IF THE TRANSACTION DOES NOT MEET THE DEFINITION OF AN OFFSHORE TRANSACTION, AS DEFINED ABOVE, THE OFFER AND SALE OF THE SECURITIES CANNOT BE MADE IN RELIANCE UPON REGULATION S.

(h) The Investor is not aware of any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the Securities including, without limitation, the placement of an advertisement in a publication with a general circulation in the United States that refers to this Regulation S offering ("directed selling efforts").

(i) The transfer and/or disposition of the Securities offered hereby shall be subject to the following:

(1) The Securities have not been registered under the Securities Act or qualified under the securities laws of any state and the Securities are being offered pursuant to Regulation S promulgated thereunder; the Company's reliance on Regulation S is predicated in part on the representations of the Investor set forth herein. As a result of the foregoing, the Investor agrees that the Securities may not be sold, transferred, or otherwise disposed of in the United States or to U.S. persons without registration under the Securities Act and any other applicable securities laws or the availability of an exemption therefrom, and in the absence of an effective registration statement covering the Securities or the availability of an exemption from registration under the Securities Act and any other applicable securities laws, it may be necessary

to hold the Securities indefinitely, unless the resale safe harbor of Regulation S is available with respect to the proposed disposition.

(2) The Investor represents that, in the absence of an effective registration statement under the Securities Act covering the Securities, the Investor will only sell, transfer, or otherwise dispose of the Securities, if selling, transferring or otherwise disposing of the Securities in the United States or to a U.S. person, pursuant to an applicable exemption from the registration requirements of the Securities Act and applicable state securities laws.

(3) The Investor acknowledges that he is familiar with the provisions of Rule 904 of Regulation S, which permits resales of the Securities outside the United States under certain circumstances. A transaction is deemed to occur outside the United States for purposes of Rule 904 if:

(A) it is an offshore transaction (as defined in paragraph (g) above); and

(B) there are no "directed selling efforts" (as defined paragraph (h) above) made in the United States by the seller, an affiliate or any person acting on their behalf.

THIS RESALE SAFE HARBOR DOES NOT PERMIT THE INVESTOR TO RESELL THE SECURITIES IN THE UNITED STATES OR TO A U.S. PERSON. OFFERS AND SALES MAY BE MADE IN THE UNITED STATES OR TO U.S. PERSONS ONLY PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS.

(j) Investor understands that in the view of the Commission the statutory basis for the exemption claimed for the transactions contemplated by the Agreement would not be present if the offering of Securities, although in technical compliance with Regulation S, is part of a plan or scheme to evade the registration provisions of the Securities Act, and Investor confirms that its purchase is not part of any such plan or scheme. Investor is acquiring the Securities for investment purposes and has to present intention to sell the Securities in the United States or to a U.S. person or for the account or

benefit of a U.S. person either now or promptly after the expiration of the restricted period under Rule 902 of Regulation S.

(k) Investor is not an underwriter of, or dealer in, the Securities and Investor is not participating, pursuant to a contractual agreement, in the distribution of the Securities. If Investor is purchasing the Securities subscribed for hereby in a representative or fiduciary capacity, the representations and warranties in this Agreement shall be deemed to have been made on behalf of the person or persons for whom Investor is so purchasing.

(l) The Investor agrees that all certificates evidencing the Securities shall bear a legend in substantially the following form, and by which the Investor agrees to be bound:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, OR TO OR FOR THE ACCOUNT OR BENEFIT OF, UNITED STATES PERSONS, UNTIL 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE, EXCEPT IN EITHER CASE IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. THE RESALE SAFE HARBOR OF REGULATION S DOES NOT PERMIT THE RESALE OF THE SECURITIES IN THE UNITED STATES OR TO A U.S. PERSON. OFFERS AND SALES MAY BE MADE IN THE UNITED STATES OR TO U.S. PERSONS ONLY PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS.

TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

(m) The Company shall make a notation regarding the restrictions on transfer of the Securities in its stock books, and the Company shall not be required to transfer on its books any of such Securities that have been sold or transferred in violation of any of the provisions of this Agreement or to treat as the owner of such Securities any transferee to whom such securities have been so transferred.

4.3 Registration of Shares.

(a) Filing of Registration Statement. The Company shall use its best efforts to file with the Commission, on or before the date ninety (90) days following the final Closing of the sale of Securities to any investors participating in the Offering ("Final Closing"), a registration statement under the Securities Act covering the resale of the Shares (including shares of Common Stock issued or issuable as a dividend or other distribution with respect to, or in exchange for, or in replacement of such Shares) (collectively, the "Registrable Securities") by the Holders. Notwithstanding the foregoing, the Company shall not be obligated to take any action to effect any such registration pursuant to this Section in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act.

(b) Company Obligations Regarding Registration Statement.

The Company shall:

(i) Keep the registration statement with respect to the Registrable Securities filed pursuant to Section 4.3(a) of this Agreement ("Registration Statement") effective for the period from the date of declaration of effectiveness of such Registration Statement

through the earlier of: (i) the date 24 months from the Final Closing, or (ii) the sale of all of the Registrable Securities;

(ii) Prepare and file with the Commission such amendments and supplements to such Registration Statement and the prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement during the period of its effectiveness; and

(iii) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(c) Investor Cooperation and Indemnification. The Investor agrees to cooperate fully with the Company in the preparation and filing of the Registration Statement. The Investor will provide at his, her or its own expense and in writing to the Company all information and data with respect to himself, herself, or itself and to his, her, or its plan of distribution as shall be required by the rules and regulations of the Commission, to be included in any such Registration Statement. The Investor also agrees to comply fully with reasonable procedures established by the Company in connection with the registration. The Investor further agrees to indemnify, defend, and hold harmless the Company, each of its directors, each of its officers who has signed such Registration Statement, (or any amendment or supplement thereof) and each person, if any, who controls the Company, within the meaning of the Securities Act, against any costs, expenses (including attorneys' fees), losses, damages or liabilities to which the Company, or any such director, officer or controlling person of the Company may become subject under the Securities Act or otherwise, insofar as said costs, expenses, losses, damages or liabilities (or actions in respect thereof) arise out of or are based upon any violation by a selling stockholder under this Agreement or any reasonable procedures established by the Company in connection with the registration, or untrue statement or alleged untrue statement of material fact contained in the registration statement, (or any amendment or supplement thereof) or arising out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that such indemnity shall apply only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with information furnished by the Investor for use in the preparation thereof.

(d) Company Indemnification. The Company hereby agrees to indemnify, defend, and hold harmless the Investor, each of its directors and officers and each person, if any, who controls the Investor within the meaning of the Securities Act against any costs, expenses (including attorneys' fees), losses, damages or liabilities to which the Investor or any such director or officer or controlling person may become subject under the Securities Act or otherwise insofar as said costs, expenses, losses, damages or liabilities (or actions in respect thereof), arise out of or are based upon, any untrue statement or alleged untrue statement of material fact contained in the registration statement, (or any amendment or supplement thereof)

or from the omission or the alleged omission therein of a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that such indemnity shall apply only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with information furnished by the Company or any officer, director or controlling person of the Company (other than the Investor) for use in the preparation thereof and that the Company shall be entitled to control the defense and any settlement of any such matter.

ARTICLE 5

CONDITIONS TO THE COMPANY'S OBLIGATIONS AT CLOSING

The obligations of the Company under Section 1.2 of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions as to the Investor:

5.1 Representations and Warranties True on the Closing. The representations and warranties of the Investor contained in Sections 3 and 4 shall be true on and as of the Closing with the same force and effect as if they had been made at the Closing.

5.2 Payment of Purchase Price. The Investor shall have delivered to Bailey and Company, Inc., the Company's placement agent, for the account of the Company, the total consideration for the Debentures which the Investor is

purchasing at the Closing.

ARTICLE 6

DEBENTURES

6.1 Principal and Interest Payments. The Company shall pay interest semi-annually to the registered holders of the debentures (the "Holders") on the principal amount of the Debentures on the last business day of each semi-annual period (the "Interest Payment Dates") of each year i.e., each December 31 and June 30, commencing in 1996, at the rate of eight percent (8%) per annum, accruing from the date of initial issuance. Accrued but unpaid interest shall bear interest at the rate of eight percent (8%) per annum until paid, commencing with the date on which such interest was due and payable. Unless earlier converted into Common Stock in accordance with Article 7 hereof, or accelerated in accordance with Article 9, the entire outstanding amount of the Debentures and all accrued but unpaid interest shall be due and payable in full on December 31, 1997.

6.2 Reissue of Debentures. No Debenture shall be reissued with respect to the principal amount of any Debentures which are paid pursuant to this Agreement, and the Company shall cancel and terminate any Debenture which has been fully paid or presented to it for exchange pursuant to any of the provisions of this Agreement.

6.3 Registration and Transfer of Debentures.

(a) The Company shall, at all times while any Debentures are outstanding, act as the registrar of the Debentures and shall cause to be kept at its principal office in the City of Portland, Oregon, or in such other place or places and by such other registrar or registrars, if any, as the Company may designate, a register in which shall be entered the names and addresses of the Holders of Debentures and the particulars of the Debentures held by them respectively and of all transfers of Debentures. The name of the Holder shall be noted on the Debentures by the Company or other registrar.

(b) No transfer of a Debenture shall be valid unless made by the Holder or his executors or administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Company, upon compliance with the provisions of this Agreement and the Debentures such other requirements as the Company and/or other registrar may reasonably prescribe, and unless such transfer shall have been duly entered on the appropriate register and/or noted on such Debenture by the Company or other registrar. The person in whose name a Debenture is registered shall be deemed to be the owner thereof.

6.4 Exchanges of Debentures. Debentures of any authorized denomination not less than $1,000 in principal amount may be exchanged for Debentures of any other authorized denomination or denominations, any such exchange to be for Debentures of an equivalent aggregate principal amount, as requested by the Holders and bearing the same interest rate and date of maturity as the original Debentures. Any exchange of Debentures may be made at the offices of the Company or at the offices of any registrar where a register is maintained for the Debentures pursuant to the provisions of Section 6.3. Any Debentures tendered for exchange together with a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer shall be surrendered to the Company or appropriate registrar and shall be canceled.

ARTICLE 7

CONVERSION

7.1 Holder's Right of Conversion. At any time prior to maturity, the Holders of the Debentures shall have the right from time to time to convert all or a portion of the principal balance thereof unpaid and outstanding (together with any accrued and unpaid interest) from time to time into shares of the Common Stock of the Company; such conversion shall be made at the conversion price in effect at the time of conversion, determined as hereinafter provided (the "Conversion Price"). The initial Conversion Price shall be U.S. $1.25 (the "Initial Conversion Price"). However, if at any time the closing bid price of the Company's Common Stock as reported on the Nasdaq National Market for fifteen

(15) consecutive trading days is less than $0.65, then the Conversion Price shall be $0.65 (the "Adjusted Conversion Price"). Such right of conversion is conditioned upon the Holder's agreement to convert a minimum principal amount of the Debentures of Twenty-Five Thousand United States Dollars (U.S. $25,000) at any time such Holder elects to exercise its conversion rights unless, at the time the Holder elects to

convert its Debenture, it holds less that Twenty-Five Thousand United States Dollars (U.S. $25,000) in principal amount of the Debentures, in which instance, the entire amount shall be converted.

7.2 Company's Right to Demand Conversion. The Company shall have the right to require conversion of the Debentures, in its sole discretion, at any time after six months following the final Closing of the Offering, unless and until such Debentures have been repaid in full.

7.3 Exercise of Conversion Right.

(a) In order to exercise the conversion right provided in Section 7.1, a Holder of the Debentures shall surrender the Debentures at the office of the Company or other registrar appointed by the Company, together with a conversion notice in the form attached to the Debenture as Exhibit A thereto.

(b) For the purposes of this Article, a Debenture shall be deemed to be surrendered for conversion in the case of Section 7.1, on the date (herein called "Date of Conversion") on which it is surrendered by delivery to the Company at its principal office in Portland, Oregon, or other registrar, if any, appointed by the Company and of which the Holder of the Debenture is notified in writing, and, in the case of a Debenture surrendered by post or other means of transmission, on the date on which it is received by the Company at its principal office in Portland, Oregon, or other registrar, if any, appointed by the Company and of which the Holder of the Debenture is notified in writing; provided that if a Debenture is surrendered for conversion on a day on which the register of Common Stock is closed, the person or persons entitled to receive Common Stock shall become the holder or holders of record of such shares or Common Stock as of the date on which such register is next reopened.

(c) The Holder of any Debenture of which only part is converted shall, upon the exercise of its right of conversion, surrender the said Debenture to the Company or other registrar, if any, and the Company or other registrar, if any, shall cancel the same and shall without charge forthwith certify and deliver to the Holder a new Debenture or Debentures in an aggregate principal amount equal to the unconverted part of the principal amount of the Debenture so surrendered, provided that such new Debenture(s) shall be issued only in denominations of One Thousand United States Dollars (U.S. $1,000) or integral multiples thereof.

7.4 Adjustment of Conversion Price. The Conversion Price shall be subject to adjustment as follows:

(a) In case the Company shall (i) pay a dividend in shares of its capital stock (other than an issuance of shares of capital stock to holders of Common Stock who have elected to receive a dividend in shares in lieu of cash), (ii) subdivide its outstanding shares of Common Stock, (iii) reduce, consolidate or combine its outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common Stock any shares of the Company, the Conversion Price in effect immediately prior thereto shall be adjusted

to that amount determined by multiplying the Conversion Price in effect immediately prior to such date by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding on such date before giving effect to such division, subdivision, reduction, combination or consolidation or stock dividend and of which the denominator shall be the number of shares of Common Stock outstanding after giving effect thereto. Such adjustments shall be made successively whenever any such effective date or record date shall occur. An adjustment made pursuant to this subsection (a) shall become effective retroactively, immediately after the record date in the case of a dividend and shall become effective immediately after the effective date in the case of a

subdivision, reduction, consolidation, combination or reclassification.

(b) If the Common Stock issuable upon the conversion of the Debentures shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend provided for above, or a reorganization, merger, consolidation or sale of assets provided for in this Section 7.4), then, and in each such event, each Holder of Debentures shall have the right thereafter to convert such Debentures into the kind and amount of shares of Common Stock and other securities and property receivable upon such reorganization, reclassification, or other change by the Holders of the number of shares of Common Stock into which such Debentures might have been converted, as reasonably determined by the Company's board of directors, immediately prior to such reorganization, reclassification, or change, all subject to further adjustment as provided herein.

(c) If at any time or from time to time there shall be a capital reorganization of the Company (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 7.4) or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made as reasonably determined by the Company's board of directors so that the Holders of the Debentures shall thereafter be entitled to receive upon conversion of such Debentures, the number of shares of stock or other securities or property of the Company or of the successor corporation resulting from such merger or consolidation or sale, to which a Holder of Common Stock deliverable upon conversion would have been entitled on such capital reorganization, merger, consolidation or sale.

(d) The adjustments provided for in this Section 7.4 are cumulative and shall apply to successive divisions, subdivisions, reductions, combinations, consolidations, issues, distributions or other events contemplated herein resulting in any adjustment under the provisions of this Section, provided that, notwithstanding any other provision of this Section, no adjustment of the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price then in effect; provided, however, that any adjustments which by reason of this subsection (d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

(e) Upon each adjustment of the Conversion Price, the Company shall give prompt written notice thereof addressed to the registered Holders at the address of such Holders as shown on the records of the Company, which notice shall state the Conversion Price resulting from such adjustment and the increase or decrease, if any, in the number of shares issuable upon the conversion of such Holder's Debentures, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

7.5 Reservation of Shares. The Company agrees that, so long as any Debenture shall remain outstanding, the Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized capital stock for the purpose of issue upon conversion of the Debentures, the full number of shares of Common Stock then issuable upon exercise of the outstanding Debentures.

7.6 Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of the Debentures. If, upon conversion of any Debenture as an entirety, the registered Holder would, except for the provisions of this Section 7.6, be entitled to receive a fractional share of Common Stock, then an amount equal to such fractional share multiplied by the then fair market value of shares of the Company's Common Stock shall be paid by the Company to such registered Holder.

7.7 Validity of Shares. The Company agrees that all shares of Common Stock which may be issued upon conversion of the Debentures will, upon issuance, be legally and validly issued, fully paid and nonassessable.

7.8 Shareholder's Rights. Until conversion, and then only to the extent that a portion of the principal of the Debentures remains unconverted, the Holders of Debentures shall have no rights as shareholders of the Company.

7.9 Notice of Certain Events. If at the time:

(a) the Company shall declare any dividend or distribution payable to the Holders of its Common Stock;

(b) the Company shall offer for subscription pro rata to the holders of Common Stock any additional shares of stock of any class or other rights;

(c) there shall be any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation or business organization; or

(d) there shall be a voluntary dissolution, liquidation or winding up of the Company;

then, in any one or more of said cases, the Company shall give the registered Holders of the Debentures written notice, by certified or registered mail, of the date on which a record shall be

taken for such dividend, distribution or subscription rights or for determining shareholders entitled to vote upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up and of the date when any such transaction shall take place, as the case may be. Such notice shall also specify the date as of which the Holders of Common Stock of record shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding up, as the case may be. Such written notice shall be given at least thirty (30) days prior to the transaction in question and not less than twenty (20) days prior to the record date in respect thereto.

ARTICLE 8

SUBORDINATION

8.1 Bank Indebtedness. For purposes of this Agreement, the term "Bank Indebtedness" shall be defined as follows:

The principal of, and accrued and unpaid interest on (a) indebtedness of the Company incurred in the ordinary course of business for money borrowed or in respect of letters of credit issued for its own account, to (i) any bank or trust company organized under the laws of the United States or any state or (ii) any savings and loan association; or (iii) any stockholder, customer, vendor, business partner or joint venturer of the Company; (b) guarantees entered into in the ordinary course of business by the Company of indebtedness for money borrowed; (c) purchase and money obligations entered into in the ordinary course of business, evidenced by notes, lease-purchase agreements, purchase contracts or agreements, or similar instruments for the payment of which the Company is responsible or liable, by guarantees or otherwise; (d) obligations of the Company incurred in the ordinary course of business under any agreement to lease, or lease of, any real or personal property which are required to be capitalized in accordance with generally accepted accounting principles, or any other agreement to lease, or lease of, any real or personal property for the benefit of the Company which, by the terms thereof, are expressly designated as Bank Indebtedness; and (e) any modification, renewal, extension or refunding of any such indebtedness, guarantee or obligation; in every case, whether such indebtedness, guarantee or obligation, or such modification, renewal, extension or refunding thereof, was outstanding on the date of execution of this Agreement or thereafter created, incurred or assumed; unless, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such indebtedness, guarantee or obligation, or such modification, renewal, extension or refunding thereof, is not superior in right of payment to the Debentures.

8.2 Agreement of Subordination. The Company agrees, and each Holder of Debentures issued hereunder by its acceptance thereof likewise agrees, that all Debentures shall be issued subject to the provisions of this Article 8; each

person holding any Debenture, whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions. All Debentures issued hereunder shall, to the extent and in the manner

hereinafter set forth, be subordinated and subject in right of payment or satisfaction to the prior payment of Bank Indebtedness up to an aggregate maximum of U.S. $3,000,000.

8.3 Payments to Debenture Holders. No payment on account of principal of, or interest on, the Debentures shall be made if any default or event of default with respect to any Bank Indebtedness which permits the holders thereof (or a trustee on their behalf) to accelerate the maturity thereof shall have occurred and be continuing.

Upon any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding-up or total or partial liquidation or reorganization of the Company, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due upon Bank Indebtedness up to the amount set forth in Section 8.2 above (depending on the date of such occurrence) shall first be paid in full, or payment thereof provided for, in money or money's worth in accordance with its terms, before any payment is made on account of the principal of, or interest on the Debentures; and upon any such dissolution or winding-up or liquidation or reorganization, any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Debentures would be entitled, except for the provisions of this Article 8, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution directly to the holders of the Bank Indebtedness or their representative or representatives or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Bank Indebtedness may have been issued, as their respective interests may appear, to the extent necessary to pay Bank Indebtedness up to the amount set forth in Section 8.2 above in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of Bank Indebtedness, before any payment or distribution is made to the Holders of the Debentures.

In the event that, notwithstanding the preceding paragraphs, any payment or distribution of assets of the Company of any kind or character, whether in cash, property, or securities, prohibited by the preceding paragraphs shall be received by the Holders of the Debentures, such payment or distribution shall be paid over or delivered to the holders of Bank Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Bank Indebtedness may have been issued, as their respective interests may appear, for application to the payment of Bank Indebtedness remaining unpaid to the extent necessary to pay Bank Indebtedness up to the amount set forth in Section 8.2 above in money or money's worth in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Bank Indebtedness.

8.4 Subrogation of Debentures. Subject to the payment of Bank Indebtedness as provided above and subject to applicable law, the rights of the Holders of the Debentures shall be appropriately subrogated to the rights of the holders of Bank Indebtedness to receive payments or distributions of cash, property or securities of the Company to the extent applicable to the Bank Indebtedness until the principal of, and premium, if any, and interest on the Debentures shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the

holders of the Bank Indebtedness of any cash, property or securities to which the Holders of the Debentures would be entitled except for the provisions of this Article 8, and no payment over pursuant to the provisions of this Article 8 to the holders of Bank Indebtedness by Holders of the Debentures, as between the Company, its creditors other than holders of Bank Indebtedness, and the Holders of the Debentures, be deemed to be a payment by the Company to or on account of the Bank Indebtedness. It is understood that the provisions of this Article 8 are for the sole purpose of defining the relative rights of the Holders of

Debentures, on the one hand, and the holders of the Bank Indebtedness, on the other hand.

Nothing contained in this Article 8 or elsewhere in this Agreement or in the Debentures is intended to or shall impair, as between the Company, its creditors other than the holders of Bank Indebtedness, and the Holders of the Debentures, the obligation of the Company, which is absolute and unconditional, to pay to the Holders of the Debentures the principal of, and interest on, the Debentures as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders of the Debentures and creditors of the Company other than the holders of Bank Indebtedness, nor shall anything herein prevent the Holder of any Debenture from exercising all remedies otherwise permitted by applicable law upon default under this Agreement, subject to the rights, if any, under this Article 8 of the holders of Bank Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy. Upon any payment or distribution of assets of the Company referred to in this Article 8, the Holders of the Debentures shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, delivered to the Holders of the Debentures, for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Bank Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 8.

The terms "paid in full" and "payment in full" as used in this Article 8 with respect to Bank Indebtedness mean the receipt, in cash or securities (taken at their market value at the time of the receipt thereof), of the principal amount of the Bank Indebtedness (and any premium due thereof) and full interest thereon to the day of such payment of principal and all other amounts due to holders of Bank Indebtedness pursuant to the provisions of the instruments providing therefor.

8.5 No Impairment of Subordination. No right of any present or future holder of any Bank Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Agreement, regardless of any knowledge thereof which any such holder may have or otherwise be charged with.

ARTICLE 9

REMEDIES

9.1 Events of Default. "Event of Default," wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be occasioned by the provisions of this Article 9 or be voluntary or involuntary or be effected by operation of law pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest upon any Debenture when the same becomes due and payable, and continuance of such default for a period of thirty (30) days;

(b) default in the payment of the principal of any Debenture when the same becomes due and payable;

(c) default in the performance, or breach, of any covenant or warranty of the Company in Article 11 of this Agreement (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Article specifically dealt with), and continuance of such default or breach for a period of sixty (60) days after there has been given, by registered or certified mail, to the Company by the Holders of at least ten percent (10%) in principal amount of the outstanding Debentures, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(d) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall have remained in effect for a period of sixty (60) consecutive days; or

(e) the Company shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Company or for any substantial part of its property, or shall make any general assignment for the benefit of creditors.

9.2 Acceleration of Maturity; Rescission and Annulment. If an Event of Default occurs and is continuing, then and in every such case the Holders of not less than twenty-five percent (25%) in principal amount of the Debentures outstanding may declare the principal of all of the Debentures to be immediately due and payable, by a notice in writing to the Company and upon any such declaration such principal shall become immediately due and payable.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained, the Holders of a majority in principal amount of Debentures outstanding, by written notice to the Company, may rescind and annul such declaration and its consequences if:

(1) the Company has paid or deposited into a trust account a sum sufficient to pay:

(a) all overdue installments of interest on all Debentures,

(b) the principal of any Debentures which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Debentures, and

(c) to the extent that payment of such interest is lawful, interest upon overdue installments of interest at the rate borne by the Debentures.

(2) all events of Default, other than the non-payment of the principal of Debentures which have become due solely by such acceleration, have been cured or waived as provided in Section 9.8.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

9.3 Collection of Indebtedness and Suits for Enforcement by Holders. The Company covenants that if:

(1) default is made in the payment of any installment of interest on any Debenture when such interest becomes due and payable and such default continues for a period of thirty (30) days, or

(2) default is made in the payment of the principal of any Debenture at the maturity thereof,

the Company, will, upon demand of the Holders hereof pursuant to Section 9.2, pay to such Holders, the whole amount then due and payable on this Debenture for principal and interest, with interest, upon the overdue principal and, to the extent that payment of such interest shall be legally enforceable, upon overdue installments of interest, at the rate borne by the Debenture.

If the Company fails to pay such amounts forthwith upon such demand, the Holder may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or any other obligor upon this

Debenture and collect the monies adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon this Debenture, wherever situated.

9.4 Unconditional Right of Debenture Holders to Receive Principal and Interest. Subject to the provisions of this Agreement, the Holder of any Debenture shall have the right which is absolute and unconditional to receive payment of the principal of and interest on such Debenture on the respective dates expressed in such Debenture and to institute suit for the enforcement of any such payment and such right shall not be impaired without the consent of such Holder.

9.5 Restoration of Rights and Remedies. If any Debenture Holder has instituted any proceeding to enforce any right or remedy under this Agreement and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to such Debenture Holder, then and in every such case the Company and the Debenture Holder shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Debenture Holder shall continue as though no such proceeding had been instituted.

9.6 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Debenture Holder is intended to be exclusive of any other right or remedy and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

9.7 Delay or Omission not Waiver. No delay or omission of the Holder of the Debenture to exercise any right or remedy occurring upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein.

9.8 Waiver of Past Defaults. The Holders of a majority in principal amount of the outstanding Debentures may on behalf of the Holders of all the Debentures waive any past default hereunder and its consequences, except a default in the payment of the principal of or interest on any Debenture. Upon any such waiver, such default shall cease to exist, and any event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Agreement; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

ARTICLE 10

Supplemental Agreements Regarding Debentures

10.1 Supplemental Agreements with Consent of Debenture Holders. With or without notice to any Debenture Holder but with the consent of the Holders of not less than 66-2/3% in principal amount of the outstanding Debentures, the Company, when authorized by a duly adopted board resolution, and the Debenture Holders may enter into an agreement or agreements supplemental hereto for the purpose of adding any provisions to or changing in any manner or modifying in any manner the rights of the Holders of the Debentures under this Agreement; provided, however, that no such supplemental agreement as it relates to the Debentures and the

terms and conditions thereof shall, without the consent of the Holder of each outstanding Debenture affected thereby:

(1) change the date of maturity of the principal of, or any installment of interest on, any Debenture, or reduce the principal amount thereof or the rate of interest thereon, or change the coin or currency in which, the principal of any Debenture or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the date of maturity thereof;

(2) reduce the percentage in principal amount of the outstanding

Debentures, the consent of whose Holders is required for any such supplemental agreement or the consent of whose Holders is required for any waiver (or compliance with certain provisions of this Agreement or certain defaults hereunder and their consequences) provided for in this Agreement;

(3) modify any of the provisions of this Section or Section 9.8, except to increase any such percentage or to provide that certain other provisions of this Agreement cannot be modified or waived without the consent of the Holder of each Debenture affected thereby; or

(4) adversely affect the right to convert the Debentures as provided in Article 7 hereof.

It shall not be necessary for any consent or authorization of Debenture Holders under this Section to approve the particular form of any proposed supplemental agreement, but it shall be sufficient if such consent or authorization shall approve the substance thereof.

10.2 Effect of Supplemental Agreements. Upon the execution of any supplemental agreement under this Article, this Agreement shall be modified in accordance therewith, and such supplemental agreement shall form a part of this Agreement for all purposes; and every Holder of Debentures theretofore or thereafter delivered hereunder shall be bound thereby.

10.3 Reference in Debentures to Supplemental Agreements. Debentures delivered after the execution of any supplemental agreement pursuant to this Article may bear a notation as to any matter provided for in such supplemental agreement. If the Company shall so determine, new Debentures so modified as to conform, in the opinion of the board of directors, to any such supplemental agreement may be prepared, executed and delivered by the Company in exchange for outstanding Debentures.

10.4 Modification of Subordination Provisions. No supplemental agreement shall directly or indirectly modify any provision of this Agreement so as to affect adversely the rights of any holder of Bank Indebtedness at the time outstanding without the written consent of such holder.

ARTICLE 11

Covenants

11.1 Payment of Principal and Interest. The Company will duly and punctually pay the principal of, and interest on, the Debentures in accordance with the terms of the Debentures and this Agreement.

11.2 Money for Debenture Payments to be Held in Trust.

(a) Company as Paying Agent. While the Company acts as its own paying agent, it will, on or before each due date of the principal of, or interest on, any of the Debentures, segregate and hold in trust for the benefit of the persons entitled thereto a sum sufficient to pay the principal or interest so becoming due until such sums shall be paid to such persons or otherwise dispose of as herein provided.

(b) Outside Paying Agent. Whenever the Company shall have one or more paying agents, it will, on or prior to each due date of the principal of, or interest on, any Debentures, deposit with, or make available to, the paying agent a sum sufficient to pay the principal or interest so becoming due, such sum to be held in trust for the benefit of the persons entitled to such principal, premium or interest.

(c) Unclaimed Payments. If any money deposited with any paying agent, or then held by the Company, in trust, for the payment of the principal of, or interest on, any Debenture is undeliverable and remains unclaimed for three years after such principal or interest has become due and payable, such money shall be paid to the Company on the written request of the Company, or, if then held by the Company, shall be discharged from such trust; and the Holder of such Debenture shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of such paying agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that such paying agent,

before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper of general circulation in the county in which the Company then has its principal place of business, notice that such money remains unclaimed and that, after a date specified therein, which shall be not less than thirty (30) days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

11.3 Corporate Existence. The Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Debenture Holders.

ARTICLE 12

Miscellaneous

12.1 Survival of Warranties. The warranties, representations and covenants contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Company or the Investor, as the case may be.

12.2 Entire Agreement. This Agreement constitutes the entire agreement between the parties, and neither party shall be liable or bound to the other party in any manner by any warranties, representations or covenants except as specifically set forth herein or therein. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any third party any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

12.3 Governing Law. This Agreement shall be governed and construed under the laws of the State of Oregon as applied to agreements among Oregon residents entered into and to be performed entirely within Oregon.

12.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

12.5 Notices. Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery or seven (7) business days after deposit with the United States Post Office, by registered or certified mail, postage prepaid, addressed to the Company at OXIS International, Inc., 6040 North Cutter Circle, Suite 317, Portland, Oregon 97217, and to the Investor at _____ _____ or at such other address as a party may designate by ten (10) days' advance notice to the other party.

12.6 Expenses. The Company shall pay all costs and expenses that it incurs with respect of the negotiation, execution, delivery and performance of the Offering, and each Investor shall pay all costs and expenses that it incurs with respect to the negotiation, execution, delivery and performance of this Agreement.

12.7 Amendments and Waivers. Subject to the terms and conditions of Article 10 with respect to supplemental agreements to modify the terms and conditions of the Debentures, any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the holders of a majority of the shares of Common Stock issuable upon conversion of the Debentures. Any amendment or waiver effected in accordance with this Section shall be binding upon each holder of the Debentures purchased under this Agreement at the time outstanding (including the shares of Common Stock issuable upon conversation of the Debentures), each future holder of such Debentures and the Company.

12.8 Effect of Amendment or Wavier. The Investor hereby acknowledges that, by the operation of Article 10 hereof, the holders of a majority in principal amount of the then outstanding Debentures will have the right and power to diminish or eliminate all rights of the holder of Debentures under this Agreement.

12.9 Rights of Investors. Each holder of the Debentures or Warrants shall have the absolute right to exercise or refrain from exercising any right or rights that such holder may have by reason of this Agreement or any Debenture, Warrant or share of Common Stock, including without limitation the right to consent to the waiver of any obligation of the Company under this Agreement and to enter into an agreement with the Company for the purpose of modifying this Agreement or any agreement effecting any such modification, and such holder shall not incur any liability to any other holder or holders of the securities with respect to exercising or refraining from exercising any such right or rights.

12.10 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provisions shall be excluded from this Agreement, and the balance of this Agreement shall be interpreted as if such provisions were so excluded and shall be enforceable in accordance with its terms.

12.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constituted on and the same instrument.

12.12 Gender. Words importing the neuter gender shall include the masculine and feminine gender.

12.13 Definitions. Terms used herein and defined in the Memorandum shall have the same meanings herein as therein defined.

ARTICLE 13

Subscription

13.1 Subscription Amount. The undersigned hereby subscribes for _____ Securities and tenders herewith a certified check or bank draft in full payment for such subscription or shall tender such other evidence of payment in full for the Securities as shall be acceptable to the Company, including forgiveness of outstanding indebtedness.

13.2 Resale Compliance. The undersigned agrees to comply with the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder, and any other relevant securities legislation and policies governing the purchase, holding and resale of the securities subscribed for (or those issuable upon conversion thereof), including, without limitation, applicable state blue sky laws.

The undersigned acknowledges that this subscription shall not be effective unless accepted by the Company as indicated below.

CORPORATE OR OTHER ENTITY: INDIVIDUAL INVESTOR(S):

- ----------
(Printed Name of Entity)

By:
---------- ----------
(Signature) (Signature)

- ---------- ----------
(Name Printed) (Name Printed)

Title:

---------- ----------
(Street Address)

- ---------- ----------
(Street Address) (City, State & Zip)

- ---------- ----------
(City, State, Zip) (Telephone Number)

- ---------- ----------
(Telephone Number) (Social Security Number)

- ---------- FORM OF OWNERSHIP
Federal I.D. No.
[ ] individual [ ] community property

[ ] joint tenants [ ] tenants in common

[ ] other _____

ACCEPTED:

OXIS INTERNATIONAL, INC., a Delaware corporation

By:

Name:
Title:

Dated: , 1995

EXHIBIT A

NOTICE OF CONVERSION

TO: OXIS INTERNATIONAL, INC.

The undersigned Holder of this Debenture hereby irrevocably elects to convert this Debenture, or portion hereof (which is at least U.S. $25,000, unless the undersigned holds Debentures aggregating less than U.S. $25,000, in which event, the amount converted shall be the entire amount of principal of such Debentures) below designated, into shares of Common Stock of OXIS International, Inc. in accordance with the terms of the Subscription and Purchase Agreement dated November _____, 1995, and directs that the shares issuable and deliverable upon such conversion, together with any check (or such other form of payment acceptable to OXIS International, Inc.) in payment for fractional shares and any Debentures representing any unconverted principal amount hereof, be issued and delivered to the undersigned unless a different name has been indicated below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes, if any, payable with respect thereto.

Dated: _____, 199_

- ---------- ----------
Principal Amount to be Converted Signature of Holder

THE DEBENTURES ARE TRANSFERABLE ONLY AS PROVIDED IN THE PURCHASE AGREEMENT.

Provide the following information if shares of Common Stock and/or Debentures are to be issued otherwise than to the Holder. Please print name and address

(including zip code) of such other person:

- ----------

- ----------

- ----------

Social Security or Other Taxpayer
Identifying Number

EXHIBIT 21 (A)

SUBSIDIARIES OF OXIS INTERNATIONAL, INC.

As of December 31, 1995, the Company's subsidiaries were as follows:

Name	Jurisdiction of incorporation
OXIS International S.A.	France
OXIS Acquisition Corporation	Delaware
OXIS Isle of Man Limited	Isle of Man

EXHIBIT 23(a)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-64451 on Form S-8 and in Registration Statement No. 33-61087 on Form S-3 of our report dated March 7, 1996 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern) appearing in the Annual Report on Form 10-K of Oxis International, Inc. for the year ended December 31, 1995.

DELOITTE & TOUCHE LLP

March 28, 1996

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