ALTEON INC /DE
Form 10-K/A
April 12, 2002

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

FORM 10-K/A
(Amendment No. 1)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001, OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-16043

ALTEON INC.
(Exact name of registrant as specified in its charter)

DELAWARE	13-3304550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

170 WILLIAMS DRIVE, RAMSEY, NEW JERSEY 07446
(Address of principal executive offices)
(Zip Code)

(201)934-5000
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange On Which Registered
Common Stock, Par Value $.01 per share	American Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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. [_]

The aggregate market value of the equity stock held by non-affiliates of the registrant, based on the American Stock Exchange closing price of the Common Stock ($4.25 per share), as of February 20, 2002, was $134,651,713.

At February 20, 2002, 31,764,846 shares of the registrant's Common Stock, par value $.01 per share, were outstanding.

EXPLANATORY NOTE

Alteon Inc. hereby amends its Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on March 7, 2002, for the sole purpose of correcting the typographical error in the caption in the common stock line of the stockholders' equity section of the audited balance sheet as filed, which indicated that Alteon has 40,000,000, rather than 80,000,000 shares of authorized common stock. The caption in the audited balance sheet included in the financial statements filed herewith reflects the 80,000,000 authorized shares.

This correction has no impact on the number of outstanding shares of Alteon's common or preferred stock or on earnings per share or on any other item in the audited financial statements.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, this amendment contains the complete text of Item 8 and Item 14, the items being amended. The Index to Exhibits, which is incorporated by reference into Item 14, indicates the exhibits being filed herewith.

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PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

a) The financial statements required to be filed pursuant to this Item 8 are appended to this Annual Report on Form 10-K/A. A list of the financial statements filed herewith is found at "Index to Financial Statements and Schedules" on page 5.

b) The unaudited quarterly financial data for the two-year period ended December 31, 2001 is as follows:

	Revenues	Expenses	Loss Before Income Tax Benefit	Net Loss Applicable t Common Stockholder
		(in thousands, except per share amounts)		

2001				
First Quarter	$153	$ 4,181	$ (4,028)	$ (4,793)
Second Quarter	101	2,407	(2,306)	(3,096)
Third Quarter	107	2,321	(2,214)	(3,239)
Fourth Quarter	91	4,313	(4,222)	(3,869)
	----	-------	--------	--------
Total Year	$452	$13,222	$(12,770)	$(14,997)
2000				
First Quarter	$166	$ 2,762	$ (2,596)	$ (3,305)
Second Quarter	143	2,402	(2,259)	(2,983)
Third Quarter	110	3,339	(3,229)	(3,977)
Fourth Quarter	151	3,185	(3,034)	(2,250)
	----	-------	--------	--------
Total Year	$570	$11,688	$(11,118)	$(12,515)

PART IV

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

(a) Financial Statements:

Our audited financial statements, financial statement schedules and the Report of Independent Public Accountants are appended to this Annual Report on Form 10-K/A. Reference is made to the "Index to Financial Statements and Schedules" on page 5.

(b) Reports on Form 8-K.

On December 18, 2001, we filed a current report on Form 8-K, dated December 10, 2001, announcing the issuance of a key patent covering glucose lowering agents.

On November 13, 2001, we filed a current report on Form 8-K, dated November 7, 2001, announcing the initiation of a Phase I human testing of ALT-711 in ESRD patients undergoing peritoneal dialysis.

On October 25, 2001, we filed a current report on Form 8-K, dated October 23, 2001, announcing the initiation of a second Phase IIb trial of ALT-711 in systolic hypertension.

On October 19, 2001, we filed a current report on Form 8-K, dated October 18, 2001, announcing the appointment of Thomas A. Moore to the Board of Directors.

(c) Exhibits.

The exhibits required to be filed with this Annual Report on Form 10-K/A are listed on the Index to Exhibits attached hereto, which is incorporated herein by reference.

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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 this 9th day of April 2002.

ALTEON INC.

By: /s/ Kenneth I. Moch

Kenneth I. Moch
President and Chief Executive Officer

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Form 10-K/A - Item 14(a)(1)
Alteon Inc.
Index to Financial Statements and Schedules

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Alteon Inc.:

We have audited the accompanying balance sheets of Alteon Inc. (a Delaware corporation) as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alteon Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the U.S.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
January 22, 2002

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ALTEON INC.
BALANCE SHEETS

ASSETS

	December 2001
Current Assets:	
Cash and cash equivalents	$ 4,249
Short-term investments	6,476
Other current assets	1,394
Total current assets	12,120
Property and equipment, net	1,109
Deposits and other assets	2
Total assets	$ 13,233

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	$ 307
Accrued expenses	2,054
Total current liabilities	2,362
Commitments and Contingencies	
Stockholders' Equity:	

Preferred stock, $0.01 par value, 1,993,329 shares authorized, and 992 and 912 of Series G and 2,980 and 2,739 of Series H shares issued and outstanding, as of December 31, 2001 and December 31, 2000, respectively...	
Common stock, $0.01 par value, 80,000,000 shares authorized, and 27,314,846 and 22,399,660 shares issued and outstanding, as of December 31, 2001 and December 31, 2000, respectively.....................	273
Additional paid-in capital..	159,596
Accumulated deficit...	(149,008
Accumulated other comprehensive income/(loss)..............................	9
Total stockholders' equity...	10,870
Total liabilities and stockholders' equity....................................	$ 13,233

The accompanying notes are an integral part of these statements.

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ALTEON INC.
STATEMENTS OF OPERATIONS

	Year ended Decemb	
	2001	2000
Revenues:		
Investment income..................................	$ 451,518	$ 570,444
Other income..	--	--
Total revenues................................	451,518	570,444
Expenses:		
Research and development (which includes non-cash variable stock compensation expense in 2001 and 2000 of $164,988 and $353,065, respectively)..............	8,461,476	6,375,380
General and administrative (which includes non-cash variable stock compensation expense in 2001 and 2000 of $657,295 and $890,604, respectively)..............	4,760,747	5,312,750
Total expenses................................	13,222,223	11,688,130

Loss before income tax benefit........................	(12,770,705)	(11,117,686)
Income tax benefit.................................	1,186,921	1,547,763
Net loss...	(11,583,784)	(9,569,923)
Preferred stock dividends...........................	3,203,906	2,945,451
Common stock warrant deemed dividends................	209,528	--
Net loss applicable to common stockholders.............	$(14,997,218)	$(12,515,374)
Basic/diluted loss per share to common stockholders.....	$ (0.61)	$ (0.63)
Weighted average common shares used in computing basic/diluted loss per share........................	24,555,885	19,860,847

The accompanying notes are an integral part of these statements.

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ALTEON INC.
STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumula Defici
	Shares	Amount	Shares	Amount		
Balances at DECEMBER 31, 1998	3,086	$31	18,814,740	$188,147	$131,005,033	$(107,85
Net loss	--	--	--	--	--	(10,93
Change in unrealized gains/(losses)	--	--	--	--	--	
Comprehensive loss	--	--	--	--	--	
Issuance of Series G and H preferred stock dividends	271	3	--	--	2,707,841	(2,70
Exercise of employee stock options	--	--	374,961	3,750	162,691	
Compensation expense in connection with the issuance of non-qualified stock options, stock option modifications and options granted to non-employees .	--	--	--	--	253,948	
DECEMBER 31, 1999	3,357	34	19,189,701	191,897	134,129,513	(121,49
Net loss	--	--	--	--	--	(9,56
Change in unrealized gains/(losses)	--	--	--	--	--	
Comprehensive loss	--	--	--	--	--	

Issuance of Series G and H preferred stock dividends	294	3	--	--	2,945,448	(2,94
Exercise of employee stock options	--	--	375,871	3,759	500,786	
Private placement of common stock and warrants	--	--	2,834,088	28,341	6,103,151	
Compensation expense related to variable plan employee stock options	--	--	--	--	1,243,669	
Compensation expense in connection with the issuance of non-qualified stock options, stock option modifications and options granted to non-employees .	--	--	--	--	318,698	
DECEMBER 31, 2000	3,651	37	22,399,660	223,997	145,241,265	(134,01
Net loss	--	--	--	--	--	(11,58
Change in unrealized gains/(losses)	--	--	--	--	--	
Comprehensive loss	--	--	--	--	--	
Issuance of Series G and H preferred stock dividends	321	3	--	--	3,203,903	(3,20
Exercise of employee stock options	--	--	415,186	4,151	428,698	
Public offering of common stock ...	--	--	4,500,000	45,000	9,365,080	
Compensation expense related to variable plan employee stock options	--	--	--	--	822,283	
Common stock warrant deemed dividends	--	--	--	--	209,528	(20
Compensation expense in connection with the issuance of non-qualified stock options, stock option modifications and options granted to non-employees .	--	--	--	--	326,177	
DECEMBER 31, 2001	3,972	$40	27,314,846	$273,148	$159,596,934	$(149,00

The accompanying notes are an integral part of these statements.

ALTEON INC.
STATEMENTS OF CASH FLOWS

	Yea
	2001
Cash flows from operating activities:	

Net loss	$(11,583,784)
Adjustments to reconcile net loss to cash used in operating activities:	
Depreciation and amortization	636,565
Stock compensation expense	326,177
Non-cash compensation expense related to variable plan employee stock options	822,283
Changes in operating assets and liabilities:	
Other current assets	340,895
Other assets	--
Accounts payable and accrued expenses	425,775
Net cash used in operating activities	(9,032,089)
Cash flows from investing activities:	
Capital expenditures	(50,159)
Purchases of marketable securities	(16,743,570)
Sales and maturities of marketable securities	16,632,000
Net cash (used in) provided by investing activities	(161,729)
Cash flows from financing activities:	
Net proceeds from issuance of common stock	9,842,929
Net cash provided by financing activities	9,842,929
Net increase/(decrease) in cash and cash equivalents	649,111
Cash and cash equivalents, beginning of period	3,600,328
Cash and cash equivalents, end of period	$ 4,249,439
Non-cash transactions:	
Preferred stock dividends	3,203,906
Common stock warrant deemed dividends	209,528

The accompanying notes are an integral part of these statements.

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ALTEON INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Alteon Inc. ("Alteon" or the "Company") is a product-based biopharmaceutical company engaged in the discovery and development of oral drugs to reverse or inhibit cardiovascular aging and diabetic complications. The Company's product candidates represent novel approaches to some of the largest pharmaceutical markets, such as cardiovascular and kidney diseases. The Company conducts its business in one operating segment. Alteon's proprietary technology focuses on Advanced Glycosylation End-products ("A.G.E.s"). A.G.E.s ultimately form crosslinks with adjacent proteins, leading to a loss of flexibility and function in body tissues, vessels and organs. All of the Company's products are in research or development, and no revenues have been generated from product sales.

The Company's lead A.G.E. Crosslink Breaker compound, ALT-711, is initially being developed for cardiovascular indications, including systolic hypertension. Alteon completed a Phase IIa trial to evaluate the effect of ALT-711 on cardiovascular compliance. Based on the positive results of this trial, Alteon initiated two Phase IIb efficacy trials of ALT-711, the SAPPHIRE (Systolic And Pulse Pressure Hemodynamic Improvement by Restoring Elasticity) and SILVER (Systolic Hypertension Interaction with Left VEntricular Remodeling) trials. The compound is also under Phase I investigation in end-stage renal disease ("ESRD") patients undergoing peritoneal dialysis.

A topical formulation of an A.G.E. Crosslink Breaker, ALT-744, is being clinically evaluated in skin aging for cosmetic applications. The Company continues to evaluate product development opportunities from its A.G.E. Crosslink Breaker compounds and other classes of compounds in its patent estate.

The Company's business is subject to significant risks including, but not limited to, (i) its ability to obtain funding, (ii) its uncertainty of future profitability, (iii) the risks inherent in its research and development efforts, including clinical trials, (iv) uncertainties associated with obtaining and enforcing its patents and with the patent rights of others, (v) the lengthy, expensive and uncertain process of seeking regulatory approvals, (vi) uncertainties regarding government reforms and product pricing and reimbursement levels, (vii) technological change and competition, (viii) manufacturing uncertainties and (ix) dependence on collaborative partners and other third parties. Even if the Company's product candidates appear promising at an early stage of development, they may not reach the market for numerous reasons. Such reasons include the possibilities that the products will prove ineffective or unsafe during clinical trials, will fail to receive necessary regulatory approvals, will be difficult to manufacture on a large scale, will be uneconomical to market or will be precluded from commercialization by proprietary rights of third parties. Alteon will require substantial additional funding in order to continue the research, product development, pre-clinical testing and clinical trials of its product candidates. If adequate funding is not available, the Company may be required to curtail significantly one or more of its research or development programs and other Company activities.

Pervasiveness of Estimates

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

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash and highly liquid investments, which have a maturity of less than three months at the time of purchase. Short-term investments are considered available-for-sale and are recorded at fair market value, as determined by quoted market value. As of December 31, 2001 and 2000, short-term investments were invested in debt instruments of the U.S. government, government agencies, financial institutions and corporations with strong credit ratings. They consist of the following:

	December 31,	
	2001	20
U.S. government agency funds......................	$5,479,434	$2,65
Corporate obligations............................	996,950	3,70
	$6,476,384	$6,35

The amortized cost of short-term investments was $6,466,919 and $6,355,349 at December 31, 2001 and December 31, 2000, respectively. Gross unrealized gains or losses are not significant.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the useful lives of owned assets, which range from three to five years. Leasehold improvements and equipment under capital leases are amortized using the straight-line method over the shorter of the lease term or the useful life of the assets.

Research and Development

Expenditures for research and development are charged to operations as incurred.

Stock-Based Compensation

The Company accounts for employee stock-based compensation and awards issued to non-employee directors under Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25") and related interpretations. Stock option awards issued to consultants and contractors are accounted for in accordance with the provision of Statement of Financial Accounting Standard No. 123 ("SFAS No. 123"), which requires options issued to these parties to be valued at their fair market value when computing compensation.

Net Loss Per Share

Basic loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of shares outstanding during the year. Diluted loss per share is the same as basic loss per share, as the inclusion of common stock equivalents would be antidilutive.

Comprehensive Income/(Loss)

The only comprehensive income/(loss) items the Company has are unrealized gains/(losses) on available-for-sale investments and net loss.

ALTEON INC.
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

Revenue Recognition

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The adoption of SAB 101 had no impact on the accompanying financial statements.

Recently Issued Accounting Standards

In August 2001, Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which is effective for fiscal years beginning after December 15, 2001, and addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"), and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB No. 30"), for the disposal of a segment of a business. Alteon plans to adopt the standard on January 1, 2002, and does not expect that the adoption of SFAS No. 144 will have a material effect on the Company's results of operations or financial position.

During June 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separable or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and intangible assets that have indefinite useful lives will not be amortized, but rather will be tested at least annually for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001.

SFAS No. 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001, be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives shall be tested for impairment. Goodwill recognized on or before June 30, 2001, shall be assigned to one or more reporting units and shall be tested for impairment as of the beginning of the fiscal year in which SFAS No. 142 is initially applied in its entirety. The Company is required to and will adopt SFAS No. 142 as of January 1, 2002. Based on the Company's current activities, the Company does not believe the adoption of these pronouncements will have an impact on the Company's results of operations, cash flows or financial position.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

ALTEON INC.
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

NOTE 2 -- PROPERTY AND EQUIPMENT

	December 31, 2001	December 31, 2000
Laboratory equipment..............................	$1,183,034	$1,167,780
Furniture and equipment...........................	686,560	686,560
Computer equipment................................	409,496	374,589
Leasehold improvements............................	5,215,069	5,215,069
	7,494,159	7,443,998
Less: Accumulated depreciation & amortization......	(6,384,483)	(5,747,916
	$1,109,676	$1,696,082

Depreciation and amortization expense was $636,565, $765,601 and $743,820 for the years ended December 31, 2001, 2000 and 1999, respectively.

NOTE 3 -- COLLABORATIVE RESEARCH AND DEVELOPMENT AGREEMENT

In December 1997, Alteon and Genentech, Inc. ("Genentech") entered into a stock purchase agreement and a development collaboration and license agreement providing for the development and marketing of pimagedine, a second-generation A.G.E.-Formation Inhibitor. Pursuant to the stock purchase agreement, Genentech purchased Common Stock, Series G Preferred Stock and Series H Preferred Stock for an aggregate purchase price of $37,544,000 (See Note 7). Genentech's obligations to purchase shares of Alteon's stock terminated December 31, 1998. Pursuant to a letter agreement dated February 11, 1999, between Alteon and Genentech, the development collaboration and license agreement terminated effective June 30, 1999.

NOTE 4 -- OTHER DEVELOPMENT AGREEMENTS

Alteon has entered into a number of licensing and collaboration agreements relating to the development and distribution of its A.G.E-related technology. The Company granted to Yamanouchi Pharmaceutical Co., Ltd. an exclusive license to commercialize our A.G.E.-Formation Inhibitor, pimagedine, in Japan, South Korea, Taiwan and The People's Republic of China. Alteon has entered into an exclusive licensing arrangement with Roche Diagnostics GmbH for Alteon's technology for diagnostic applications, and we have also entered into clinical testing and distribution agreements with Gamida for Life which grant Gamida the exclusive right to distribute pimagedine, if successfully developed and approved for marketing, in Israel, Bulgaria, Cyprus, Jordan and South Africa. Alteon has a license and supply agreement with IDEXX Laboratories, Inc. pursuant to which the Company licensed pimagedine to IDEXX as a potential therapeutic in companion animals (dogs, cats and horses) and Alteon's A.G.E. diagnostics technology for companion animal use. All of these agreements will entitle Alteon to receive royalties on sales if any products covered by the agreements are developed and sold.

In October 2000, Alteon entered into an agreement with HemoMax, LLC ("HemoMax") for the development of a novel technology designed to increase the delivery of oxygen to tissues in the body through enhanced blood circulation. On February 9, 2002, HemoMax advised Alteon that because of uncertainties regarding its ability to receive patents adequate to support commercialization of the technology, it has decided to cease operations and liquidate.

In August 1999, Alteon and Taisho Pharmaceutical Co., Ltd. ("Taisho") entered into an agreement under which Taisho was granted an exclusive option through December 31, 1999, to acquire a license to Alteon's lead A.G.E. Crosslink Breaker, ALT-711, for Japan, South Korea, Taiwan and The People's Republic of China for a non-refundable option fee of $600,000. This amount is reflected in other income in the statement of operations. The option expired on December 31, 1999.

Alteon has also entered into a number of academic research and license agreements. Pursuant to an agreement with Rockefeller University, we have exclusive, royalty-free, worldwide and perpetual rights to the technology and inventions relating to A.G.E.s and other protein crosslinking, including those relating to the complications of aging and diabetes. The Company also obtained an exclusive, worldwide, royalty-bearing license from Washington University for patents covering the use of pimagedine as an inhibitor of inducible nitric oxide synthase. In addition Alteon received from The Picower Institute for Medical Research ("The Picower Institute") an exclusive worldwide, royalty-bearing license for certain commercial health care applications of A.G.E.-related inventions. On December 31, 2001, The Picower Institute ceased operations, and we expect to assume all responsibility and costs for the worldwide filing and prosecution of patent applications and maintenance of patents for such inventions.

Alteon's commercial partners may develop, either alone or with others, products that compete with the development and marketing of the Company's products. Competing products, either developed by the commercial partners or to which the commercial partners have rights, may result in their withdrawal of support with respect to all or a portion of the Company's technology, which would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has also entered into various arrangements with independent research laboratories to conduct studies in conjunction with the development of the Company's technology. The Company receives certain rights to inventions or discoveries that may arise from this research.

NOTE 5 -- ACCRUED EXPENSES

	December 31,	
	2001	2000
Clinical trial expense............................	$1,379,693	$ 848,745

Professional fees	191,000	291,000
Payroll and related expenses	224,287	167,680
Rent expense	100,673	155,585
Patent fees	85,571	111,529
Other	73,756	57,040
	$2,054,980	$1,631,579

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases its headquarters and research facility and related equipment and furniture under non-cancelable operating leases. As of December 31, 2001, future minimum rentals under operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows:

	Operating Leases
2002	$536,500
2003	447,000
Thereafter	---
	$983,500

Rent expense for each of the years in the three-year period ended December 31, 2001 was $599,655, $586,294 and $573,962, respectively.

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ALTEON INC.
NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

Contingencies

The Company is party to various claims and lawsuits arising in the normal course of business. In the opinion of management, these suits and claims will not result in judgments or settlements, which, in the aggregate, would have a material adverse effect on the Company's condition or the results of operations.

NOTE 7 -- STOCKHOLDERS' EQUITY

Common/Preferred Stock Issuances

In July 2001, Alteon completed a public offering of 4,500,000 shares of common stock, which provided net proceeds of approximately $9,365,000. In connection with this offering, certain previously issued warrants were repriced from $3.40 to $2.25 per share pursuant to antidilution provisions connected to the warrants. Such repricing resulted in a $209,528 deemed dividend on the underlying common stock.

In September 2000, Alteon entered into an agreement with several investors pursuant to which Alteon sold, in a private placement, an aggregate of 2,834,088 shares of common stock and warrants to purchase 1,133,636 shares of common stock (the "Warrants") for an aggregate purchase price of $6,235,000. The adjusted exercise price of the Warrants is $2.25 per share, while the term is seven years.

In December 1997, the Company and Genentech entered into a stock purchase agreement pursuant to which Genentech agreed to buy shares of Common Stock, Series G Preferred Stock and Series H Preferred Stock (See Note 3). In December 1997, Genentech purchased Common Stock and Series G Preferred Stock for an aggregate purchase price of $15,000,000. On July 27, 1998 and October 1, 1998, Genentech purchased $8,000,000 and $14,544,000 respectively, of Series H Preferred Stock. As of December 31, 2001, 2000 and 1999 respectively, approximately $3,204,000, $2,945,000 and $2,708,000 of Preferred Stockholder Dividends were recorded. Series G Preferred Stock and Series H Preferred Stock Dividends are payable quarterly in shares at a rate of 8.5%. Each share of Series G Preferred Stock and Series H Preferred Stock is convertible upon 70 days' prior written notice into a number of shares of common stock determined by dividing $10,000 by the average of the closing sales price of the common stock, as reported on the American Stock Exchange for the 20 business days immediately preceding the date of conversion.

In connection with an April 1997 offering, warrants to purchase 60,000 shares of common stock at an exercise price of $4.025 per share are still outstanding.

Stock Option Plan

The Company has established two stock option plans for its employees, officers, directors, consultants and independent contractors. Options to purchase up to 4,192,000 shares of common stock may be granted under the first plan and options to purchase up to 7,000,000 shares of common stock may be granted under the second plan.

The plans are administered by a committee of the Board of Directors, which may grant either non-qualified or incentive stock options. The committee determines the exercise price and vesting schedule at the time the option is granted. Options vest over various periods and may expire no later than 10 years from date of grant. Each option entitles the holder to purchase one share of common stock at the indicated exercise price. The plans also provide for certain antidilution and change in control rights, as defined.

The following table summarizes the activity in the Company's stock options:

	Options	Exercise Price Range Per Share	Weighted Average Exercise Price Per Share
Balance, December 31, 1998	4,799,260		$5.39
Granted	1,928,701	$0.780- $ 1.125	0.99

Exercised	(374,961)	0.300- 0.600	0.44
Canceled	(1,277,804)	0.810 - 15.000	3.88
Balance, December 31, 1999	5,075,196		$3.40
Granted	1,105,820	$1.630- $ 7.000	4.57
Exercised	(375,871)	0.600- 5.130	1.34
Canceled	(550,326)	0.600- 9.500	1.12
Balance, December 31, 2000	5,254,819		$4.02
Granted	873,942	$2.600- $ 4.150	3.13
Exercised	(415,186)	0.844- 1.125	1.04
Canceled	(1,008,269)	0.813- 11.150	8.53
Balance, December 31, 2001	4,705,306		$3.15

The following table summarizes information regarding stock options outstanding at December 31, 2001:

	Options Outstanding at December 31, 2001			Options Exercisa December 31,
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares Exercisable
$0.7810-$ 1.0630	1,493,512	6.15	$0.9500	1,433,356
1.1250- 3.5200	1,179,593	8.81	1.9770	585,156
3.5625- 5.1250	1,238,076	7.76	3.9428	725,235
5.3750- 15.0000	794,125	5.49	7.7841	592,412
$0.7810-$15.0000	4,705,306	7.13	$3.1484	3,336,159

The weighted average fair value of the options granted was $3.13, $2.54 and $0.53 during 2001, 2000 and 1999, respectively. Included in options at December 31, 2001, are 1,095,000 options granted to certain executives with option prices ranging from $0.875 per share to $3.90 per share, the fair market value on the date of grant. Such options vest upon the earlier of five years after grant or upon achievement of certain Company milestones.

The Company accounts for its stock option plans for options granted to employees and non-employee directors under APB Opinion No. 25, under which no compensation cost (excluding those options granted below fair market value) has been recognized. Had compensation costs for these plans been determined consistent with SFAS No. 123, the Company's pro forma net loss and loss per share applicable to common stockholders for 2001, 2000 and 1999 would have been $16,507,000, $13,651,000 and $13,935,000, and $0.67, $0.69 and $0.73, respectively. Stock option awards issued to consultants and contractors have been accounted for in accordance with SFAS No. 123. The 2001, 2000 and 1999 pro forma net loss and loss per share applicable to common stockholders reflects a benefit of $53,000, $157,000 and $1,458,000, respectively, for the reversal of previously recognized pro forma compensation costs on options forfeited. Consistent with SFAS No. 123, the Company elected not to estimate these forfeitures in the prior period pro forma compensation cost calculation. Because SFAS No. 123 has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Under SFAS No. 123, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2001, 2000 and 1999, respectively; risk free interest rates ranging from 2.04% to 5.30%, 5.24% to 6.64% and 4.73% to 6.07%, respectively; expected life of 2.02 years over the vesting periods; expected dividend yield of 0%; and expected volatility of 70%.

In March 2000, the FASB released Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, An Interpretation of APB Opinion No. 25". The interpretation became effective on July 1, 2000, but in some circumstances applies to transactions that occurred prior to the effective date. Under the interpretation, stock options that are repriced must be accounted for as variable-plan arrangements until the options are exercised, forfeited or expire. This requirement applies to any options repriced after December 15, 1998. On February 2, 1999, the Company repriced certain stock options. The total non-cash stock compensation expense resulting from the repricing for the years ended December 31, 2001 and December 31, 2000 is $822,283 and $1,243,669 respectively, which includes research and development charges of $164,988 and $353,065, and general and administrative charges of $657,295 and $890,604, respectively. As of December 31, 2001, there are approximately 605,000 repriced options outstanding.

NOTE 8 -- SAVINGS AND RETIREMENT PLAN

The Company maintains a savings and retirement plan under Section 401(k) of the Internal Revenue Code which allows eligible employees to annually contribute a portion of their annual salary to the plan. In 1998, the Company began making discretionary contributions at a rate of 25% of an employee's contribution up to a maximum of 5% of the employee's base salary. The Company made contributions of $38,669, $30,530 and $49,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

NOTE 9 -- RELATED PARTY TRANSACTIONS

Since the Company's inception, the Company has entered into certain collaborative agreements with organizations with which Dr. Anthony Cerami, a former member of the Company's Board of Directors, was affiliated. These organizations included The Picower Institute, The Rockefeller University, Cerami Consulting Corporation and the Kenneth S. Warren Laboratories, Inc. The Company paid to the organizations $0, $0 and $243,000 in 2001, 2000, and 1999, respectively. In addition, the Company paid patent maintenance fees for technology related to the organizations of $17,000, $120,000 and $73,000 in 2001, 2000 and 1999, respectively. Although the Company has terminated its collaborative relationship with The Picower Institute, the Company has a royalty obligation on all net sales and other revenues associated with certain technologies developed, payable to The Picower Institute's successor. Effective May 17, 1999, the Company terminated its consulting agreement with Cerami Consulting Corporation and its research agreement with Kenneth S. Warren Laboratories, Inc. In addition, Dr. Cerami resigned from the Company's Board of Directors on April 19, 1999.

Prior to 2000, the Company had a Scientific Advisory Board. The Chairman and two other Scientific Advisory Board members provided consulting services to the Company. Consulting fees paid to these members totaled $55,000 in 1999.

NOTE 10 -- INCOME TAXES

At December 31, 2001, the Company had available Federal net operating loss carryforwards, which expire in the years 2006 through 2020, of approximately $135,500,000 for income tax purposes and State net operating loss carryforwards, which expire in the years 2002 through 2007, of approximately $85,100,000. In addition, the Company has Federal research and development tax credit carryforwards of approximately $5,100,000 and State research and development tax credit carryforwards of approximately $1,600,000. The amount of Federal net operating loss and research and development tax credit carryforwards which can be utilized in any one period may

become limited by Federal income tax regulations if a cumulative change in ownership of more than 50% occurs within a three-year period.

The components of the deferred tax assets and the valuation allowance are as follows:

	December 31, 2001	December 31, 2000
Net operating loss carryforwards..	$ 51,300,000	$ 47,700,000
Research and development credit...	6,700,000	7,100,000
Other temporary differences.......	4,100,000	2,400,000
Gross deferred tax assets.........	62,100,000	57,200,000
Valuation allowance...............	(62,100,000)	(57,200,000)
Net deferred tax assets...........	$ --	$ --

A valuation allowance was established since the realization of the Company's deferred tax assets is uncertain. In 2001, 2000 and 1999, the Company sold $6,243,000, $14,129,000 and $27,687,000, respectively, of its gross State net operating loss carryforwards and $802,000, $590,000 and $645,000, respectively, of its State research and development tax credit carryforwards under the State of New Jersey's Technology Business Tax Certificate Transfer Program (the "Program"). The Program allows qualified technology and biotechnology business in New Jersey to sell unused amounts of net operating loss carryforwards and defined research and development tax credits for cash. The proceeds from the sale in 2001, 2000 and 1999 were approximately $1,187,000, $1,548,000 and $2,588,000, respectively, and such amounts were recorded as a tax benefit in the statements of operations. The proceeds from the sale of the net operating loss carryforwards and the research and development tax credit carryforwards sold in 2001 were received on January 4, 2002. The State renews the Program annually and limits the aggregate proceeds to $10,000,000. Due to the uncertainty at any time as to the Company's ability to effectuate the sale of Alteon's available State net operating losses, since the Company has no control or influence over the program, the benefits are recorded once the agreement with the counterpart is signed and the sale is approved by the State.

NOTE 11 - SUBSEQUENT EVENT

In January 2002, Alteon completed a public offering of 4,450,000 shares of common stock, which provided net proceeds of approximately $18,588,000.

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3.1	Restated Certificate of Incorporation, as amended. (Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 10-Q filed on November 10, 1999).
3.2	Certificate of the Voting Powers, Designations, Preference and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations or Restrictions of Series F Preferred Stock of the Company. (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
3.3	Certificate of Retirement dated September 10, 2000, of Alteon Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 10-Q filed on November 10, 1999).
3.4	Certificate of Designations of Series G Preferred Stock of Alteon Inc. (Incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
3.5	Certificate of Amendment of Certificate of Designations of Series G Preferred Stock of Alteon Inc. (Incorporated by reference to Exhibit 3.4 to the Company's Report on Form 10-Q filed on August 14, 1998).
3.6	Certificate of Designations of Series H Preferred Stock of Alteon Inc. (Incorporated by reference to Exhibit 3.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
3.7	Amended Certificate of Designations of Series H Preferred Stock of Alteon Inc. (Incorporated by reference to Exhibit 3.6 to the Company's Report on Form 10-Q filed on August 14, 1998).
3.8	Certificate of Retirement dated November 20, 2000, of Alteon Inc. (Incorporated by reference to Exhibit 3.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
3.9	Certificate of Amendment to Restated Certificate of Incorporation of Alteon Inc., dated June 7, 2001 (Incorporated by reference to Exhibit 3.8 to the Company's Report on Form 10-Q filed on August 14, 2001).
3.10	By-laws, as amended. (Incorporated by reference to Exhibit 3.7 to the Company's Report on Form 10-Q filed on May 12, 1999).

4.1	Stockholders' Rights Agreement dated as of July 27, 1995, between Alteon Inc. and Registrar and Transfer Company, as Rights Agent. (Incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
4.2	Amendment to Stockholders' Rights Agreement dated as of April 24, 1997, between Alteon Inc. and Registrar and Transfer Company, as Rights Agent. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on May 9, 1997).
4.3	Registration Rights Agreement dated as of April 24, 1997, between Alteon Inc. and the investors named on the signature page thereof. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 9, 1997).
4.4	Form of Common Stock Purchase Warrant. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 9, 1997).
4.5	Amendment to Stockholders' Rights Agreement dated as of December 1, 1997, between Alteon Inc. and Registrar and Transfer Company, as Rights Agent. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 10, 1997).
4.6	Registration Rights Agreement dated September 29, 2000. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 5, 2000).
4.7	Form of Series 1 Common Stock Purchase Warrant. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 5, 2000).
4.8	Form of Series 2 Common Stock Purchase Warrant. (Incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on October 5, 2000).
10.1+	Amended and Restated 1987 Stock Option Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.2+	Amended 1995 Stock Option Plan.
10.3	Form of Employee's or Consultant's Invention Assignment, Confidential Information and Non-Competition Agreement executed by all key employees and consultants as employed or retained from time to time. (Incorporated by Reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File Number 33-42574), which became effective on November 1, 1991).
10.4	Amendment and Assignment of Research and Option Agreement dated as of September 25, 1987, among Telos Development Corporation ("Telos"), The Rockefeller University ("The Rockefeller"), the Company and Anthony Cerami. (Incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (File Number 33-42574), which became effective on November 1, 1991).
10.5	License Agreement dated as of September 25, 1987, among Telos, Applied Immune Sciences, Inc., the Company and The Rockefeller, as

amended by letter agreement dated September 25, 1987, and letter agreement dated August 15, 1991. (Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (File Number 33-42574), which became effective on November 1, 1991).

10.6*	License Agreement dated as of June 16, 1989, between the Company and Yamanouchi Pharmaceutical Co., Ltd. ("Yamanouchi"). (Incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 (File Number 33-42574), which became effective on November 1, 1991).
10.7*	Research and License Agreement dated as of September 5, 1991, between the Company and The Picower Institute for Medical Research. (Incorporated by reference to Exhibit 10.29 to the Company's Registration Statement on Form S-1 (File Number 33-42574), which became effective on November 1, 1991).
10.8	Lease Agreement dated January 11, 1993, between Ramsey Associates and the Company. (Incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.9*	License Agreement dated as of December 30, 1994, between the Company and Corange International Limited. (Incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.10*	Research Collaboration and License Agreement dated as of June 2, 1995, between Washington University and the Company. (Incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.11	Distribution Agreement dated September 25, 1995, between the Company and Eryphile BV. (Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.12+	Employment Agreement dated as of October 21, 2000, between the Company and Elizabeth O'Dell. (Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.13+	Alteon Inc. Change in Control Severance Benefits Plan. (Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.14	Preferred Stock Investment Agreement dated as of April 24, 1997, between Alteon Inc. and the investors named on the signature page thereof. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 9, 1997).
10.15*	License and Supply Agreement dated June 17, 1997, between IDEXX Laboratories, Inc. and Alteon Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q filed on August 13, 1997).
10.16	Stock Purchase Agreement dated as of December 1, 1997, between Alteon Inc. and Genentech, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on

	December 10, 1997).
10.17+	Amended and Restated Employment Agreement dated as of December 15, 1998, between the Company and Kenneth I. Moch (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.18	Letter Agreement dated February 11, 2000, between the Company and Genentech, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 19, 1999).
10.19+	Consulting Agreement dated as of December 15, 1998, between the Company and Mark Novitch, M.D., as amended by letter agreement dated as of January 18, 2001. (Incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
10.20+	Employment Agreement dated as of March 14, 2000, between the Company and Robert deGroof, Ph.D. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q filed on May 12, 2000).
10.21	Common Stock and Warrants Purchase Agreement dated as of September 29, 2000, among Alteon Inc. and EGM Medical Technology Fund, L.P., EGM Technology Offshore Fund, Narragansett I, L.P., Narragansett Offshore, Ltd., S.A.C. Capital Associates, LLC, SDS Merchant Fund, LP and Herriot Tabuteau. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 5, 2000).
10.22*	Development Services Agreement dated September 25, 2000. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q filed on November 13, 2000).
10.23+	Letter Agreement dated December 3, 2001 between the Company and Kenneth I. Moch amending Amended and Restated Employment Agreement dated as of December 15, 1998.
23.1	Consent of Independent Public Accountants.
99.1	Letter to Commission Pursuant to Temporary Note 3T.

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* Confidentiality has been granted for a portion of this exhibit.

+ Denotes a management contract or compensatory plan or arrangement required.