PALIGENT INC
Form 10-K405
April 01, 2002

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the year ended December 31, 2001**

**Commission File Number: 0-21134**

# Paligent Inc.

(Exact name of registrant as specified in its charter)

| **Delaware** | **04-2893483** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **369 Lexington Avenue, New York, New York** | **10017** |
| (Address of principal executive offices) | (zip code) |

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

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

**(Title of Class)**

Common Stock $0.01 par value per share

Registrant s telephone number, including area code: **(212) 453-3111**

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 and 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 ý NO o

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 of this Form 10-K. ý

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 18, 2002 was $789,000.

The number of shares of the registrant s Common Stock outstanding as of March 18, 2002 was 32,490,948.

Documents incorporated by reference:

None.

**PART I**

**Note Regarding Forward-Looking Statements**

Statements in this Form 10-K that are not statements or descriptions of historical facts are forward-looking statements under Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 and are subject to numerous risks and uncertainties. These forward-looking statements can generally be identified by the use of such terms as anticipate, believe, continue, expect, may, should, or similar variations or the negative thereof. These forward looking statements involve risks and uncertainties, many of which are out of the Company s control and which may affect its future business plans. Factors that may affect the Company s future business plans include: (i) its ability to identify, complete and integrate an acquisition of an operating business; (ii) the viability of the Company s business strategy in connection with an acquisition and its ability to implement such strategy; (iii) its ability to secure financing for its operations; and (iv) its ability to generate revenues sufficient to meet its operating costs. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those discussed herein. The descriptions of the risks, uncertainties and assumptions to which the Company s business, operations and financial conditions are subject are as of the date of this report. The Company assumes no obligation to update any such forward-looking statements.

**Item 1. Business.**

**Corporate Summary**

Paligent Inc. together with its subsidiaries (collectively, Paligent or the Company ) is presently seeking business opportunities to maximize value for its shareholders. In 2001, Paligent significantly reduced its operating costs following the disposition of its Internet business and the out-licensing of its remaining biotechnology assets in 2000. All employees were released, except for the Company s chief executive officer and an executive assistant, and the Company subleased a substantial portion of its office facility and related equipment. Throughout 2001, the Company evaluated various strategic alternatives, including acquisitions of new operating businesses and technologies as well as potential merger opportunities.

From its inception in 1985 through 1999, the Company operated, under the name Procept, Inc., as a biotechnology company engaged in the development and commercialization of novel drugs with a product portfolio focused on infectious diseases and oncology. In January 2000, the Company acquired Heaven s Door Corporation ( HDC ), a company that provided business-to-business and business-to-consumer products and services for the funeral service industry over the Internet. Effective with the acquisition of HDC, the Company s name was changed from Procept, Inc. to HeavenlyDoor.com, Inc. At the same time, Procept, Inc. became the new name of the Company s subsidiary, Pacific Pharmaceuticals, Inc. (hereinafter referred to as Procept ), a company engaged in the development of cancer therapies, which the Company acquired in March 1999.

Subsequent to the merger with HDC, the Company sold its biotechnology equipment and closed its Cambridge, Massachusetts facility in June 2000. Shortly thereafter, the Company out-licensed two biotechnology compounds, PRO 2000 Gel and O6-Benzylguanine ( O6-BG ), that had been under development by the Company for several years. Under terms of the respective out-licensing agreements, the Company retained certain future rights for PRO 2000 Gel and O6-BG.

Concurrent with the closure of its biotechnology facility, the Company established an office in New York City. At this new location, the Company consolidated its Internet business operations and corporate affairs relating to its biotechnology holdings. The Florida office, which had been the center of Internet operations for HDC, was also closed in mid-2000. Effective with the merger with HDC and for the balance of 2000, the Company pursued an Internet strategy that focused on promoting and facilitating transactions between consumers, funeral industry service providers and financing institutions.

During the fourth quarter of 2000, the Company decided to discontinue the pursuit of its Internet strategy after a sustained period of deterioration in the Internet and technology sectors and related capital markets. Shortly thereafter, the Company entered into an agreement to sell all of its Web-based assets and Internet funeral service operations, including the name HeavenlyDoor.com. In connection with this agreement, the Company's name was again changed, on December 31, 2000, from HeavenlyDoor.com, Inc. to Paligent Inc.

**Biotechnology Programs Under Out-License**

**Overview**

*PRO 2000 Gel*

PRO 2000 Gel is under development as a vaginal, topical microbicide designed to provide protection against human immunodeficiency virus ( HIV ) infection, as well as other sexually transmitted pathogens (*e.g.,* herpes, chlamydia and gonorrhea infection).

On June 14, 2000, the Company licensed to Interneuron Pharmaceuticals, Inc. ( Interneuron ), the exclusive, worldwide rights to develop and market PRO 2000 Gel (see Item 13 - Certain Relationships and Related Transactions). Under the licensing agreement, the Company received an up-front payment of $500,000 and retains certain future rights to PRO 2000 Gel, including (i) provisions for the receipt of additional payments based upon the achievement of certain milestones; and (ii) royalties from future commercial sales of PRO 2000 Gel, if any. Interneuron is responsible for all remaining development and commercialization activities for PRO 2000 Gel and has an option, for a limited period of time, to purchase the future royalty rights relating to PRO 2000 Gel.

*O6-Benzylguanine*

O6-BG is a chemosensitizer that is designed to overcome resistance to a significant class of commonly used chemotherapeutic agents known as O6-alkylating agents. In pre-clinical animal studies, treatment with O6-BG increased the anti-tumor activity of these agents in brain, colon and prostate cancers, as well as in melanoma. A Phase II development program began in 1999 and continues to be conducted in accordance with a Cooperative Research and Development Agreement ( CRADA ) executed with the National Cancer Institute ( NCI ), a unit of the National Institutes of Health ( NIH ), in August 1998.

On October 13, 2000, Procept and AOI Pharmaceuticals Inc. ( AOI ) entered into a sublicense agreement (the Sublicense Agreement ) pursuant to which AOI sublicensed Procept s exclusive, worldwide patent rights and know-how relating to O6-BG in exchange for future royalties on net sales of O6-BG (see Item 13 - Certain Relationships and Related Transactions). The Sublicense Agreement also provides for cash payments to Procept based upon the achievement of certain developmental milestones. In addition, AOI assumed all financial obligations of Procept relating to its licensing of worldwide patent rights and CRADA costs that are incurred subsequent to the effective date of the Sublicense Agreement. On November 22, 2000, Procept was notified by The Penn State Research Foundation ( PSRF ) that it was in default of its material obligations under the license agreement dated February 6, 1998 between Procept and PSRF, and others (the License Agreement ), and that such default invalidated the

Sublicense Agreement. While the Company believed that PSRF s claims were without merit, the Company pursued discussions with PSRF, NIH and NCI in an effort to resolve the claims made by PSRF. On February 28, 2002, Procept and the United States Public Health Service ( PHS ), represented by NIH, a constituent agency of PHS, executed an exclusive Patent License Agreement (the New License Agreement ), which superceded the License Agreement. The New License Agreement affirms Procept s worldwide patent rights to O6-BG and related compounds, and acknowledges the Sublicense Agreement as of the date executed by Procept and AOI. At the time of executing the New License Agreement, Procept paid to PHS a one-time license issue royalty fee of $86,000 for accrued outstanding patent prosecution costs.

In connection with the execution of the New License Agreement, Procept, together with the NCI and AOI, also executed an amendment to the CRADA (the Amended CRADA ), pursuant to which AOI replaced Procept as Collaborator (i.e., the research and development partner). Under terms of the Amended CRADA, AOI assumed direct responsibility for all remaining research and payment obligations, effective as of February 28, 2002. As part of the Amended CRADA, Procept made a final payment of $200,000 to NCI for accrued production and clinical distribution costs relating to O6-BG.

Prior to executing the Amended CRADA, AOI had been obligated to reimburse Procept for costs that Procept paid under the CRADA, pursuant to, and subsequent to the effective date of, the Sublicense Agreement. While the Company was endeavoring to resolve this matter, Procept and AOI had agreed that AOI would defer its reimbursement to Procept for costs that Procept had paid relating to its licensing of patent rights and CRADA obligations. Commensurate with the resolution of this matter on February 28, 2002, AOI paid to the Company the total balance of deferred reimbursable costs.

**Description of Out-Licensed Programs**

*PRO 2000 Gel: A Microbicide to Prevent HIV and Sexually Transmitted Disease ( STD ) Infection*

PRO 2000 Gel is a topical microbicide designed to prevent the sexual transmission of HIV and other STD pathogens. Development activities are being conducted by Interneuron.

HIV infection usually leads to acquired immunodeficiency syndrome ( AIDS ), a severe, life-threatening impairment of the immune system. The World Health Organization estimates that there were 4.7 million new adult HIV infections worldwide in 2000, the majority through heterosexual intercourse. Heterosexual contact has also become the most common route of HIV infection in U.S. women. Other STDs, such as genital herpes, chlamydia and gonorrhea can lead to serious complications, especially in women, and can increase the risk of HIV infection. Based on estimates by the Kaiser Family Foundation and the World Health Organization, there are 15 million new STD cases each year in the U.S. and more than 340 million worldwide. Topical microbicides represent a new class of protective substances that are designed to be applied vaginally before sexual contact. Topical microbicides have the potential to offer an appealing, female-controlled alternative to condoms, the only products currently known to prevent HIV transmissions.

The Company believes that PRO 2000 Gel s use as a topical microbicide is suitable based upon its ability to block infection by HIV and other STD pathogens by preventing their attachment and entry into cells. Laboratory studies have shown that the drug is active against HIV, herpes simplex virus, chlamydia and the bacteria that cause gonorrhea. Moreover, in government-sponsored tests, vaginally applied PRO 2000 Gel was shown to be efficacious in a mouse model for genital herpes infection and a monkey model for vaginal HIV infection. The product is also highly stable, odorless and virtually colorless. PRO 2000

Gel differs significantly from nonoxynol-9-containing spermicides, which has failed to provide protection against HIV infection in previous human clinical trials.

A number of pre-clinical and early clinical studies of PRO 2000 Gel will have been completed prior to planned Phase II and Phase III trials. Pre-clinical development with PRO 2000 Gel included an NIH-funded study with 28 female macaque monkeys, divided equally into one control group and three treatment groups that received gels with 0.5% PRO 2000 Gel, 2% PRO 2000 Gel and 4% PRO 2000 Gel concentrations. All of the control animals were infected within two weeks after receiving the simian human immunodeficiency virus, and went on to develop AIDS symptoms. Of the treated animals, none in the 0.5% group, and only one each in the 2% and 4% groups became infected and developed disease. The Phase II and III trials include a European Commission-funded Phase II safety trial in at-risk African women scheduled to begin in 2002. In addition, a NIH-sponsored PhaseII/III pivotal trial to determine the safety and efficacy of PRO 2000 Gel in blocking male to female HIV transmission is planned to begin in 2002 in Africa and India. The study will involve approximately 10,000 HIV-uninfected women at risk for acquiring HIV by virtue of living in countries where the risk of such infection is high.

In October 2000, dosing and follow-up for a Phase I/II clinical trial of PRO 2000 Gel was completed by the NIH at sites in the U.S. and South Africa. This study was designed to assess safety and acceptability in healthy, sexually active women and HIV-infected sexually abstinent women. No serious adverse events were reported, and the investigators concluded that PRO 2000 Gel was safe and well-tolerated in both groups of women. Previous Phase I studies conducted in Europe (with support from the Medical Research Council of the United Kingdom) showed a promising safety and acceptability profile for the drug in healthy, sexually abstinent women. Phase I studies to evaluate the safety of male exposure to PRO 2000 Gel are ongoing.

In September 2001, Interneuron was awarded a grant by the Contraceptive Research and Development ( CONRAD ) Program under its Global Microbicide Project to support two toxicity studies currently being performed by Interneuron with PRO 2000 Gel. Interneuron expects these studies to be completed during 2002.

In February 2002, Interneuron announced that an international collaboration of research groups in the United Kingdom ( UK ) and Africa had been awarded a grant of 16 million pounds sterling (approximately $22.7 million) from the UK s Department for International Development ( DFID ) to test the safety and efficacy of vaginal microbicides, including PRO 2000 Gel. The Clinical Trials Unit of the Medical Research Council and Imperial College in London will coordinate the program, which will involve researchers in South Africa, Uganda, Tanzania, Cameroon and Zambia. The DFID grant will support a broad, five-year program that will include a multi-national, randomized, double-blind, placebo-controlled Phase III clinical trial of candidate microbicides.

No comparable product to prevent sexually transmitted infections has been approved for use in the U.S., Europe or Japan. Marketed vaginal spermicides containing the detergent nonoxynol-9 have been found to be ineffective at reducing HIV transmission, and may actually increase the risk of infection. Approximately 60 new substances are being evaluated for this indication, but the Company believes only a few have reached the stage of development of PRO 2000 Gel. These include BufferGel by Reprotect, LLC, Savvy by Biosyn, Inc., Emmelle by ML Laboratories, PLC, Carraguard by The Population Council, and cellulose sulfate gel by the CONRAD Program.

Interneuron is responsible for providing adequate amounts of PRO 2000 Gel for use in government-sponsored clinical trials. Interneuron is dependent upon third-party contractors for the manufacture and delivery of these supplies in accordance with current U.S. Good Manufacturing Practices regulations.

Interneuron intends to seek a partner for commercial manufacture, marketing and distribution of the product.

*O6-Benzylguanine: A DNA Repair Protein Inhibitor*

Procept holds an exclusive, worldwide license from the United States Public Health Service ( PHS ) for O6-BG and a series of related compounds that the Company believes will enhance the effectiveness of a class of currently used chemotherapeutic agents known as O6-alkylating agents. Development activities are being conducted by AOI.

O6-BG and related compounds are small molecules for intravenous administration in the treatment of cancer. The Company believes O6-BG to be capable of destroying the resistance of cancer cells to a class of chemotherapeutic agents, O6-alkylating agents. The Company believes that the effectiveness of alkylating chemotherapeutic agents against various tumors is limited due to the ability of tumor cells to repair the DNA damage caused by the O6-alkylating agents, because the DNA repair protein, O6-alkylguanine-DNA alkyltransferase ( AGT ), protects tumor cells by repairing the tumor cell DNA. The Company believes that O6-BG inactivates the AGT protein in a variety of cancers thereby overcoming resistance to the O6-alkylating agents.

The treatments for most cancers include surgery, radiation therapy and/or chemotherapy. O6-alkylators are chemotherapeutic agents that are primarily used to treat brain cancer, melanoma, lymphoma and certain gastrointestinal cancers. In general, although there are a small percentage of patients who have achieved long-term remission; the O6-alkylators are generally not considered curative. The critical factor contributing to the poor prognosis is the resistance of cancers to the chemotherapeutic agents.

Tumor cells display a variety of mechanisms of resistance to many drugs. Alkylating agents act by causing damage to the DNA by binding to the O6-position of guanine on the DNA strand. AGT is believed to play a significant role in cancer resistance to the O6-alkylators by removing this damage. In a recent study published in the November 9, 2000 issue of The New England Journal of Medicine, it was shown that glioma patients with naturally inactive AGT had a response rate of approximately 60% to carmustine ( BCNU ) therapy versus a response rate of approximately 4% for those patients that had active AGT. It was also shown that approximately 60% of these patients had active AGT and therefore made virtually all of these patients resistant to BCNU therapy. Additionally, a published study in which 226 patients with brain cancer (high-grade astrocytoma) receiving BCNU therapy showed that the patients with low levels of AGT responded better to treatment and had increased survival relative to patients with high levels of AGT. Conversely, the patients with high levels of tumor AGT protein had poor disease prognosis. Since it appears that O6-BG temporarily destroys AGT, the Company believes that O6-BG may reduce the resistance that is commonly observed in cancer cells following treatment with O6-alkylating agents.

Results of *in vitro* testing have led to an evaluation of O6-alkylating agents in animal tumor models. Upon administration of O6-BG to mice carrying two different human brain tumors prior to the administration of BCNU, 80% and 100% tumor regression was observed compared to 0% and 10% suppression in animals treated with BCNU alone. Combinations of O6-BG and BCNU were also found to be effective in mice bearing human colon cancers, showing 96% tumor regression compared to 35% tumor regression with BCNU alone. Growth inhibition was also observed in a rat prostate model after treatment with O6-BG and BCNU, but was not observed in animals treated with BCNU alone.

A Phase I clinical trial of O6-BG has been completed at Duke University ( Duke ). The Company believes that the study has shown that O6-BG, injected intravenously, crosses the blood-brain barrier and effectively blocks the activity of human brain tumor AGT protein. The Company also believes that the

study at Duke has demonstrated O6-BG to be nontoxic when administered alone, and to be effective in inhibiting over 90% of AGT activity in brain cancer specimens surgically removed from patients 18 hours after the intravenous administration of O6-BG. Three other Phase I clinical studies at the University of Chicago, Case Western Reserve University ( CWRU ) and Duke University Medical Center have examined the use of O6-BG in combination with BCNU in brain, colon and renal cancer. In these studies, O6-BG was administered over a one-hour period by intravenous infusion, followed by an infusion of BCNU one hour after completion of the O6-BG infusion. The NCI of the NIH is sponsoring the trials under the CRADA executed between the NCI and Procept. From these studies, which involved patients who had failed other cancer therapies, an O6-BG/BCNU dose of 120/40 mg/$m^2$ was chosen as the initial Phase II dose. One metastatic colon carcinoma patient achieved a sustained partial response for 13 months after failing other therapies. A second patient with carcinoma of unknown primary had sustained stable disease for 20 months. The Phase I trials have successfully demonstrated the safety of O6-BG. Through the CRADA, Johns Hopkins University Medical Scool and Duke are conducting three Phase II clinical studies in brain cancer utilizing O6-BG in combination with the Gliadel Wafer, BCNU and temozolomide, respectively. The NCI and many investigators continue to support the clinical development of O6-BG for a variety of cancer indications in a series of additional Phase I and Phase II clinical studies, which are currently ongoing.

In addition to O6-BG, the Company s collaborators have tested a considerable number of additional compounds for AGT protein inactivation. The Company believes that a number of next generation compounds are effective in inhibiting the activity of tumor AGT protein. The Company also believes that it has a proprietary interest in these compounds. The Company believes that it is possible that these compounds will offer complementary properties to that of O6-BG in further abrogation of cancer resistance to O6-alkylating agents.

**Patents and Proprietary Technology**

The Company s policy is to protect its programs under out-license by, among other things, filing or causing to be filed on its behalf, patent applications for technology relating to the development of its biotechnology compounds.

The Company believes its copyrights, service marks, trademarks, trade dress, trade secrets, proprietary technology and similar intellectual property are critical to the success of the biotechnology under out-license. The Company relies on trademark, copyright and trade secret protection in conjunction with confidentiality and/or license agreements with its employees, consultants, partners and others to protect its proprietary rights. In this regard, the Company requires employees, consultants and collaborators to execute confidentiality and invention assignment agreements upon commencement of a relationship with the Company. These agreements prohibit the disclosure of confidential information to anyone outside the Company and require disclosure and assignment to the Company of ideas, developments, discoveries and inventions made by employees, consultants, advisors and collaborators.

The Company s ability to compete effectively with other companies will depend, in part, on the ability of the Company, or its licensees, to maintain the proprietary nature of its technology. Although the Company has been granted, has filed applications for and has licensed a number of patents in the United States and foreign countries, there can be no assurance as to the degree of protection offered by these patents, as to the likelihood that pending patents will be issued or as to the validity or enforceability of any issued patents.

Competitors in both the United States and foreign countries, many of which have substantially greater resources and have made substantial investments in competing technologies, may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or interfere with the

Company s, or its licensee s, ability to develop the products currently under out-license. There can be no assurance that other third parties will not assert infringement claims against the Company, or its licensees, or that such claims will not be successful. There can also be no assurance that competitors will not infringe the Company s patents. Further, with respect to licensed patents, the defense and prosecution of patent suits may not be in the Company s, or its licensee s, control.

The Company also relies on unpatented proprietary technology of its licensees, which could be significant to the development of the Company s technology, and there can be no assurance that others may not independently develop the same or similar technology or otherwise obtain access to the Company s unpatented technology. If the Company, or its licensees, are unable to maintain the proprietary nature of the Company s technology, the Company could be adversely affected.

**Government Regulations**

Regulations imposed by federal, state and local authorities, as well as their counterparts in other countries, are a significant factor in the conduct of the research, development, manufacturing and marketing activities for proposed pharmaceutical products.

Before testing of any compounds with potential therapeutic value in human test subjects may begin, stringent government requirements for pre-clinical data must be satisfied. This data, obtained both from *in vivo* studies and *in vitro* studies, is submitted in an Investigational New Drug Application or its equivalent in countries outside the United States where clinical studies are to be conducted.

All data obtained from a comprehensive development program is submitted in New Drug Application or Product License Application to the FDA and the corresponding agencies in other countries for review and approval.

In addition to the regulations relating specifically to product approval, there are other laws and regulations regarding laboratory and manufacturing working conditions, handling and disposition of potentially hazardous material, and use of laboratory animals. In many markets, effective commercialization also requires inclusion of the product in national, state, provincial or institutional formularies or cost reimbursement systems.

Before obtaining approval for the commercial sale of any of the pharmaceutical products that our licensees are developing, our licensees must demonstrate that the product is safe and efficacious for use in each target indication. The process of obtaining FDA and other regulatory approval is lengthy and expensive. The results of pre-clinical studies and early clinical trials may not predict results that will be obtained in large-scale testing or use. Clinical trials of products that our licensees are developing may not demonstrate the safety and efficacy of such products. Regardless of clinical trial results, the FDA may not approve marketing of the product. Even if pre-market approval is obtained, the FDA is authorized to impose post-marketing requirements. A number of companies in the pharmaceutical industry, including Interneuron, have suffered significant setbacks in advanced clinical trials or have not received FDA approval, even after promising results in earlier trials. In addition, the impact of new or changed laws or regulations cannot be predicted. The costs to obtain regulatory approvals could be considerable and the failure of our licensees to obtain, or their delays in obtaining, regulatory approval could have an adverse effect on the ability of the Company to generate royalty revenue. Further, if clinical trials do not demonstrate the safety and efficacy of products under our licensees development, the Company s ability to generate milestone payments and royalty revenue will also be adversely affected

**Competition**

The biotechnology and pharmaceutical industries are subject to rapid and significant technological change. Competitors in these industries, in the United States and abroad, are numerous and include, among others, major pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions. Competition may increase further as a result of potential advances in the commercial application of biotechnology and greater availability of capital for investment in these fields. Acquisitions of competing companies and potential competitors by large pharmaceutical companies or others could enhance financial, marketing and other resources available to such competitors. As a result of academic and government institutions becoming increasingly aware of the commercial value of their research findings, such institutions are more likely to enter into exclusive licensing agreements with commercial enterprises, including competitors of the Company, or its licensees, to market commercial products. There can be no assurance that such competitors will not succeed in developing technologies that are more effective than the out-licensed biotechnology programs of the Company, or render such technologies obsolete and non-competitive, or succeed in obtaining FDA or other regulatory approvals for products more rapidly.

**Employees**

As of March 1, 2002, the Company employed 2 full-time and no part-time employees. The Company also utilizes independent contractors to perform various functions for the Company. The Company s employees are not represented by a labor union. The Company regards its employee relations to be satisfactory.

**Item 2. Properties.**

The Company s office is located at 369 Lexington Avenue, 10th Floor, New York, New York. The Company leases 5,150 square feet under a five-year lease that commenced in April 2000. Effective July 1, 2001, the Company entered into a sublease for the majority of its office space for the duration of its lease.

**Item 3. Legal Proceedings.**

None.

**Item 4. Submission of Matters to a Vote of Securityholders.**

No matters were submitted to a vote of securityholders during the fourth quarter of the fiscal year covered by this report.

9

**PART II**

**Item 5. Market for Registrant s Common Equity and Related Stockholder Matters.**

From February 17, 1994, the date of the Company s initial public offering, until March 26, 1998, the Company s common stock ( Common Stock ) was quoted on the Nasdaq National Market under the symbol PRCT. From March 27, 1998 through January 27, 2000, the Company s common stock was quoted on the Nasdaq SmallCap Market under the symbol PRCT. Effective with the merger of HDC on January 28, 2000, and until January 3, 2001, the Company s shares were quoted on the Nasdaq SmallCap Market under the trading symbol HVDC. On January 3, 2001, the Company received a letter from The Nasdaq Stock Market, Inc. ( Nasdaq ) informing the Company that the Nasdaq Listing Qualifications Panel had determined to delist the Company s securities from the Nasdaq SmallCap Market, effective with the open of business on January 4, 2001 (see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations - *Nasdaq Listing* ). The Company s securities began to trade on the OTC Bulletin Board on that date under the symbol HVDC until January 9, 2001. In connection with the name change to Paligent, the Company s trading symbol was changed to PGNT, under which symbol the Company s securities have traded since January 10, 2001.

The following table sets forth the range of high and low closing sale prices for the Common Stock as reported by the OTC Bulletin Board and the Nasdaq National Market for the periods indicated below.

| | High | Low |
|---|---|---|
| **2001** | | |
| Fourth Quarter | $ 0.07 | $ 0.03 |
| Third Quarter | $ 0.10 | $ 0.03 |
| Second Quarter | $ 0.19 | $ 0.05 |
| First Quarter | $ 0.19 | $ 0.06 |
| | | |
| **2000** | | |
| Fourth Quarter | $ 0.50 | $ 0.06 |
| Third Quarter | $ 1.22 | $ 0.31 |
| Second Quarter | $ 3.63 | $ 0.66 |
| First Quarter | $ 7.41 | $ 2.56 |

As of March 18, 2002, there were 1,547 holders of record. On March 18, 2002, the closing price reported on the OTC Bulletin Board for the Common Stock was $0.05.

**Dividend Policy**

The Company has never paid cash dividends on its common stock and does not anticipate paying such dividends in the foreseeable future. The Company intends to retain any future earnings for use in its business.

**Item 6. Selected Financial Data.**

The selected financial data set forth below as of December 31, 2001 and 2000 and for each of the three years ended December 31, 2001, 2000 and 1999 are derived from the Company s consolidated financial statements included elsewhere in this Report, which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected financial data set forth below as of December 31, 1999, 1998 and 1997 and for the years ended December 31, 1998 and 1997 are derived from audited consolidated financial statements not included in this Report. This data should be read in conjunction with the Company s financial statements and related notes thereto (contained in Item 14 of this Report) and Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report.

**SELECTED FINANCIAL DATA**

| | YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | **2001** | **2000** | **1999** | **1998** | **1997** |
| | **(in thousands, except share data)** | | | | |
| Statement of operations data: | | | | | |
| Revenues | $ 73 | $ 254 | $ 280 | $ 330 | $ 781 |
| Costs and expenses: | | | | | |
| Research and development(1) | 286 | 4,696 | 1,320 | 1,990 | 6,619 |
| Sales and marketing | | | | | |