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ALTEON INC /DE
Form 10-Q
May 12, 2003

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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
(State or other jurisdiction of
incorporation or organization)

13-3304550
(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)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report.)

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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On May 5, 2003, 35,905,841 shares of the registrant's Common Stock were

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outstanding.

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ALTEON INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALTEON INC.
BALANCE SHEETS
(UNAUDITED)

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ASSETS

| | March 31, 2003 ---- | December 31, 2002 ---- |
|-----------------------------------|---------------------------|------------------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 17,499,278 | \$ 14,452,413 |
| Short-term investments | 2,995,200 | 2,986,200 |
| Other current assets | 428,825 | 143,124 |
| | ----- | ----- |
| Total current assets | 20,923,303 | 17,581,737 |
| Property and equipment, net | 394,003 | 517,623 |
| | ----- | ----- |
| Total assets | \$ 21,317,306 | \$ 18,099,360 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|---------------|---------------|
| Current Liabilities: | | |
| Accounts payable..... | \$ 726,566 | \$ 537,394 |
| Accrued expenses | 2,812,466 | 3,258,729 |
| | ----- | ----- |
| Total current liabilities | 3,539,032 | 3,796,123 |
| | ----- | ----- |
| Stockholders' Equity: | | |
| Preferred Stock, \$0.01 par value, 1,993,329 shares authorized, and 1,102 and 1,079 of Series G and 3,309 and 3,241 of Series H shares issued and outstanding, as of March 31, 2003 and December 31, 2002, respectively | 44 | 43 |
| Common Stock, \$0.01 par value, 80,000,000 shares authorized, and 35,900,841 and 33,600,841 shares issued and outstanding, as of March 31, 2003 and December 31, 2002, respectively | 359,008 | 336,008 |
| Additional paid-in capital | 192,922,717 | 183,341,416 |
| Accumulated deficit | (175,504,109) | (169,375,594) |
| Accumulated other comprehensive income | 614 | 1,364 |
| | ----- | ----- |
| Total stockholders' equity | 17,778,274 | 14,303,237 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$ 21,317,306 | \$ 18,099,360 |
| | ===== | ===== |

The accompanying notes are an integral part of these unaudited statements.

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(UNAUDITED)

| | Three Months Ended March 31, | |
|---|------------------------------|----------------|
| | 2003 | 2002 |
| | ---- | ---- |
| Revenues: | | |
| Investment income | \$ 48,723 | \$ 135,664 |
| | ----- | ----- |
| Expenses: | | |
| Research and development (which includes non-cash variable stock compensation expense/(benefit) of \$61,970 and \$(46,838) for the three months ended March 31, 2003 and 2002, respectively) .. | 2,904,843 | 3,287,257 |
| General and administrative (which includes non-cash variable stock compensation expense/(benefit) of \$965,929 and \$(587,107) for the three months ended March 31, 2003 and 2002, respectively) .. | 2,366,937 | 589,992 |
| | ----- | ----- |
| Total expenses | 5,271,780 | 3,877,249 |
| | ----- | ----- |
| Net loss | \$ (5,223,057) | \$ (3,741,585) |
| Preferred stock dividends | 905,458 | 832,415 |
| Net loss applicable to common stockholders | \$ (6,128,515) | \$ (4,574,000) |
| | ===== | ===== |
| Basic/diluted net loss per share applicable to common stockholders | \$ (0.18) | \$ (0.15) |
| | ===== | ===== |
| Weighted average common shares used in computing basic/diluted net loss per share ... | 33,626,397 | 31,472,436 |
| | ===== | ===== |

The accompanying notes are an integral part of these unaudited statements.

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ALTEON INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Three Months Ended March 31, | |
|---------------------------------------|---------------------------------|----------------|
| | 2003 | 2002 |
| | ---- | ---- |
| Cash Flows from Operating Activities: | | |
| Net loss..... | \$ (5,223,057) | \$ (3,741,585) |

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| | | |
|---|---------------|---------------|
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation and amortization | 160,720 | 157,980 |
| Amortization of deferred compensation | 15,445 | 5,721 |
| Non-cash compensation expense/(benefit) related to variable plan employee stock options | 1,027,899 | (633,945) |
| Changes in operating assets and liabilities: | | |
| Other current assets | (285,701) | 821,365 |
| Accounts payable and accrued expenses | (257,091) | 1,095,005 |
| | ----- | ----- |
| Net cash used in operating activities | (4,561,785) | (2,295,459) |
| | ----- | ----- |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (37,100) | (16,918) |
| Purchases of marketable securities | (9,750) | (8,952,565) |
| Maturities of marketable securities | -- | 4,000,000 |
| | ----- | ----- |
| Net cash used in investing activities | (46,850) | (4,969,483) |
| | ----- | ----- |
| Cash Flows from Financing Activities: | | |
| Net proceeds from issuance of common stock | 7,655,500 | 18,610,521 |
| Net proceeds from exercise of employee stock options..... | -- | 34,067 |
| | ----- | ----- |
| Net cash provided by financing activities | 7,655,500 | 18,644,588 |
| | ----- | ----- |
| Net increase in cash and cash equivalents | 3,046,865 | 11,379,646 |
| Cash and cash equivalents, beginning of period | 14,452,413 | 4,249,439 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 17,499,278 | \$ 15,629,085 |
| | ===== | ===== |

The accompanying notes are an integral part of these unaudited statements.

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ALTEON INC.
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of Management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003, are not necessarily indicative of the results that

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may be expected for the year ending December 31, 2003. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission.

The Company's business is subject to significant risks, which are described in this Report, including under the heading "Forward-Looking Statements and Cautionary Statements."

NOTE 2 - LIQUIDITY

Alteon has incurred an accumulated deficit of \$175,504,109 as of March 31, 2003, and expects to incur operating losses, potentially greater than losses in prior years, for a number of years. The Company has devoted substantially all of its resources to research, drug discovery and development programs. To date, it has not generated any revenues from the sale of products and does not expect to generate any such revenues for a number of years, if at all.

The Company has financed its operations through proceeds from the sale of common and preferred equity securities, revenue from collaborative relationships, reimbursement of certain of our research and development expenses by its collaborative partners, investment income earned on cash balances and short-term investments and the sale of a portion of our New Jersey net operating loss carryforwards.

As of March 31, 2003, the Company had working capital of \$17,384,271, including \$20,494,478 of cash and cash equivalents and short-term investments. The Company's cash used in operations for the three months ended March 31, 2003, was \$4,561,785. The Company raised \$7,655,500 through the sale of common stock in March 2003 (See Note 7). The Company anticipates that at its current spending level, its existing available cash and cash equivalents and short-term investments will be adequate to satisfy its working capital requirements for its current operations through the first quarter of 2004. If it becomes necessary, the Company has the ability to quickly and significantly reduce the cash burn rate, as it has limited fixed commitments. Following completion of the SAPPHIRE (Systolic And Pulse Pressure Hemodynamic Improvement by Restoring Elasticity) and SILVER (Systolic Hypertension Interaction with Left VEntricular Remodeling) trials, the Company will require substantial new funding to pursue development of ALT-711 and continue its operations.

The Company will require, over the long-term, substantial new funding to pursue development and commercialization of ALT-711 and its other product candidates to continue its operations. The Company believes that satisfying these capital requirements over the long-term will require successful commercialization of its product candidates. However, it is uncertain whether any products will be approved or will be commercially successful. The amount of the Company's future capital requirements will depend on numerous factors, including the progress of its research and development programs, the conduct of pre-clinical tests and clinical trials, the development of regulatory submissions, the costs associated with protecting patents and other proprietary rights, the development of marketing and sales capabilities and the availability of third-party funding.

Because of Alteon's long-term capital requirements, the Company may seek access to the public or private equity markets whenever conditions are favorable. This may have the effect of materially diluting the current holders of the Company's outstanding stock. The Company may also seek additional funding through corporate collaborations and other financing vehicles, potentially including off-balance sheet financing through limited partnerships or corporations. There can be no assurance that such funding will be available at all or on terms acceptable to Alteon. If adequate funds are not available, the Company may be required to curtail significantly one or more of its research or

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development programs. If Alteon obtains funds through arrangements with collaborative partners or others, the Company may be required to relinquish rights to certain of its technologies or product candidates.

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NOTE 3 - 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 value, as determined by quoted market value, with changes in fair value recorded as a component of accumulated other comprehensive income. As of March 31, 2003 and December 31, 2002, short-term investments were invested in debt instruments of the U.S. government and government agencies. They consist of the following:

| | March 31, 2003 ----- | December 31, 2002 ----- |
|------------------------------|----------------------------|-------------------------------|
| U.S. government agency funds | \$2,995,200 ===== | \$2,986,200 ===== |

NOTE 4 - NET LOSS PER SHARE

Basic loss per share is based on the weighted average number of shares outstanding during the period. Diluted loss per share is the same as basic loss per share, since the assumed exercise of stock options and warrants and the conversion of preferred stock would be antidilutive. The amount of common stock equivalents excluded from the calculation as of March 31, 2003 and 2002, was 18,041,617 and 16,146,103, respectively.

NOTE 5 - STOCK 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"), "Accounting for Stock Issued to Employees," and related interpretations, under which no compensation cost (excluding those options granted below fair market value) has been recognized. Stock option awards issued to consultants and contractors are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." In March 2000, the Financial Accounting Standards Board ("FASB") released Interpretation No. 44 ("FIN 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/(benefit) resulting from the 1999 repricing for the three months ended March 31, 2003 and 2002, is \$1,027,899 and \$(633,945), respectively. As of March 31, 2003, there were approximately 589,899 repriced options outstanding, which expire on various dates through January 2008.

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If the Company had applied the fair value recognition provisions of SFAS No. 123 to all of its option grants, the Company's pro forma net loss and net loss per share applicable to common stockholders for the three months ended March 31, 2003 and 2002, would be as follows:

| | Three Months Ended March 31, | |
|---|------------------------------|----------------|
| | 2003 | 2002 |
| | ---- | ---- |
| Net loss, as reported | \$ (5,223,057) | \$ (3,741,585) |
| Add: Variable non-cash stock compensation expense/(benefit) included in reported net loss | 1,027,899 | (633,945) |
| Less: Total stock-based employee compensation expense determined under fair value method | (329,227) | (466,006) |
| | ----- | ----- |
| Pro forma net loss | \$ (4,524,385) | \$ (4,841,536) |
| Preferred stock dividends | 905,458 | 832,415 |
| | ----- | ----- |
| Pro forma net loss applicable to common stockholders..... | \$ (5,429,843) | \$ (5,673,951) |
| Earnings per share applicable to common stockholders: | | |
| Basic/diluted, as reported | \$ (0.18) | \$ (0.15) |
| Basic/diluted pro forma | \$ (0.16) | \$ (0.18) |

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NOTE 6 - COMPREHENSIVE LOSS

The following sets forth comprehensive loss for the three months ended March 31, 2003 and 2002:

| | Three Months Ended March 31, | |
|---|---------------------------------|----------------|
| | 2003 | 2002 |
| | ---- | ---- |
| Net Loss | \$ (5,223,057) | \$ (3,741,585) |
| Net Unrealized Loss on Short-Term Investments... | (750) | (18,354) |
| | ----- | ----- |
| Comprehensive Loss | \$ (5,223,807) | \$ (3,759,939) |
| | ===== | ===== |

NOTE 7 - STOCKHOLDERS' EQUITY

In March 2003, Alteon completed a public offering of 2,300,000 shares of common stock at \$3.50 per share, which provided net proceeds of \$7,655,500.

Series G Preferred Stock and Series H Preferred Stock dividends are payable quarterly in shares of preferred stock. For the three months ended March

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31, 2003 and 2002, preferred stock dividends were \$905,458 and \$832,415, respectively.

In December 2002, we completed a public offering of 1,714,285 shares of common stock at \$1.75 per share, which provided net proceeds of approximately \$2,965,000. In connection with this offering, certain previously issued warrants were repriced pursuant to antidilution provisions contained in the warrants.

In January 2002, Alteon completed a public offering of 4,450,000 shares of common stock at \$4.25 per share, which provided net proceeds of \$18,610,521.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are a product-based biopharmaceutical company primarily engaged in the discovery and development of oral drugs to reverse or slow down diseases of aging and complications of diabetes. Our product candidates represent novel approaches to some of the largest pharmaceutical markets. Our lead compound is in Phase 2b clinical development; several others are in earlier development stages. These pharmaceutical candidates were developed as a result of our research on the Advanced Glycation End-product ("A.G.E.") pathway, a fundamental pathological process and inevitable consequence of aging that causes or contributes to many medical disorders, including cardiovascular, kidney and eye diseases.

Our lead compound, ALT-711, is being developed initially for cardiovascular indications, and two Phase 2a clinical trials in cardiovascular compliance and in diastolic heart failure ("DHF") have been successfully completed. Based on the positive results of the trial in cardiovascular compliance, we have initiated two Phase 2b 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 in systolic hypertension, for which data is expected to be reported concurrently about mid-year 2003. We are also considering further clinical development in DHF and related conditions.

As we continue clinical development of ALT-711, we will determine if it is appropriate to retain development and marketing rights for one or several indications in North America, while at the same time continuing to evaluate potential corporate partnerships for the further development and ultimate marketing of the compound in other territories throughout the world. We believe that ALT-711 may address the cardiovascular, diabetes and primary care physician markets.

We continue to explore the use of topical A.G.E. Crosslink Breakers in skin and photo aging, as a result of our recent evaluation of ALT-744's positive activity in this area. We are focusing efforts on bringing forward other crosslink breaker compounds with more attractive formulation characteristics than those of ALT-744 to address the pharmaceutical market for skin and photo aging, and will discontinue research on the ALT-744 prototype.

Since our inception in October 1986, we have devoted substantially all of our resources to research, drug discovery and development programs. To date, we have not generated any revenues from the sale of products and do not expect to generate any such revenues for a number of years, if at all. We have incurred an accumulated deficit of approximately \$175,504,000 as of March 31, 2003, and expect to incur operating losses, potentially greater than losses in prior

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years, for a number of years.

We have financed our operations through proceeds from an initial public offering of common stock in 1991, subsequent public offerings of common stock, private placements of common and preferred equity securities, revenue from collaborative relationships, reimbursement of certain of our research and development expenses by our collaborative partners, investment income earned on cash balances and short-term investments and the sale of a portion of our New Jersey net operating loss carryforwards.

Our business is subject to significant risks, which are described in this Report, including under the heading "Forward-Looking Statements and Cautionary Statements."

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2003 AND 2002

Total revenues for the three months ended March 31, 2003 and 2002, were \$49,000 and \$136,000, respectively. Revenues were derived from interest earned on cash and cash equivalents and short-term investments. The decrease in income was attributable to a decrease in investment balances and the decrease in short-term interest rates.

Our total expenses were \$5,272,000 for the three months ended March 31, 2003, compared to \$3,877,000 for the three months ended March 31, 2002, and in each year consisted primarily of research and development expenses. Research and development expenses included third-party expenses associated with pre-clinical and clinical studies, manufacturing costs, including the development and preparation of clinical supplies, personnel and personnel-related expenses and facility expenses. Research and development expenses were \$2,905,000 for the three months ended March 31, 2003, as compared to \$3,287,000 for the same period in 2002. In 2003, they primarily consisted of \$1,100,000 in personnel and personnel-related expenses, \$811,000 in clinical trial expenses related to the Phase 2b SAPPHIRE and SILVER trials, \$307,000 in pre-clinical expenses, \$144,000 related to manufacturing (assay validation and development) and drug stability studies and non-cash variable stock compensation expense of \$62,000. Research and development expenses for the three months ended March 31, 2002, consisted of \$1,049,000 in clinical trial expenses related to enrollment of the SAPPHIRE and SILVER trials, \$871,000 of manufacturing expenses (tableting,

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

production of active pharmaceutical ingredient and process development) and drug stability studies, \$715,000 in personnel and personnel-related expenses and a non-cash variable stock compensation benefit of \$(47,000).

Research and development expenses decreased approximately \$382,000, or 11.6%, as compared to the three months ended March 31, 2002. This was primarily a result of decreased manufacturing activity. The first three months of 2002 included tablet manufacturing for the SAPPHIRE and SILVER trials, production of active pharmaceutical ingredient and process development work for anticipated Phase 3 clinical supplies. The decrease was also attributed to lower clinical costs associated with the SAPPHIRE and SILVER trials in the first three months of 2003 due to the number of patients who have completed the trial. Targeted enrollment for these trials was reached in November 2002, and the release of data is targeted for mid-year 2003. These decreased costs were partially offset by higher personnel and personnel-related costs, including temporary help, for

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the three months ended March 31, 2003.

The development and successful commercialization of ALT-711 are subject to substantial risks described in this Report. See, for example, "Forward-Looking Statements and Cautionary Statements -- If we do not successfully develop any products, we may not derive any revenues."

General and administrative expenses increased to \$2,367,000 for the three months March 31, 2003, compared to \$590,000 for the same period in 2002, and included a non-cash variable stock compensation expense/(benefit) of \$966,000 and \$(587,000), respectively. Non-cash variable stock compensation expense/(benefit) is directly related to changes in our stock price (See Note 5). In addition to the non-cash variable stock compensation expense, general and administrative expenses increased \$224,000 due to increased business development and marketing research costs.

Our net loss applicable to common stockholders increased to \$6,129,000 for the three months ended March 31, 2003, compared to \$4,574,000 in the same period in 2002, an increase of 34.0%, primarily related to the variable non-cash stock compensation expense. Included in the net loss applicable to common stockholders are preferred stock dividends of approximately \$905,000 and \$832,000 for the three months ended March 31, 2003 and 2002, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We had cash and cash equivalents and short-term investments at March 31, 2003, of \$20,494,000, compared to \$17,439,000 at December 31, 2002. This is an increase in cash and cash equivalents and short-term investments for the three months ended March 31, 2003, of \$3,055,000. This consisted of \$7,656,000 of net proceeds from a public offering of 2,300,000 shares of common stock at \$3.50 per share in March 2003. This was offset by \$4,562,000 of net cash used in operations, consisting primarily of research and development expenses, personnel-related costs and facility expenses and approximately \$37,000 in capital expenditures.

In December 2002, we completed a public offering of 1,714,285 shares of common stock at \$1.75 per share, which provided net proceeds of approximately \$2,965,000. In connection with this offering, certain previously issued warrants were repriced pursuant to antidilution provisions contained in the warrants.

At December 31, 2002, we had available federal net operating loss carryforwards, which expire in various amounts from the years 2006 through 2022, of approximately \$152,365,000 and New Jersey net operating loss carryforwards, which expire in the years 2004 through 2009, of approximately \$106,771,000. In addition, we had federal research and development tax credit carryforwards of approximately \$7,048,000 and New Jersey research and development tax credit carryforwards of approximately \$811,000 at December 31, 2002. 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.

In December 2002, we sold \$1,839,000 of our gross New Jersey net operating loss carryforwards and \$578,000 of our New Jersey 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 businesses 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 2002 were \$647,000 and were recorded as a tax benefit in the December 31, 2002 statement of operations. The State of New Jersey may renew the Program annually and limits the aggregate proceeds to \$10,000,000. We cannot be certain if we will be able to sell any of

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the carryforwards in the future.

We anticipate that at our current spending level, our existing available cash and cash equivalents and short-term investments will be adequate to satisfy our working capital requirements for our current operations through the first quarter of 2004. If it becomes necessary, we have the ability to quickly and significantly reduce the cash burn rate, as we have limited fixed commitments. Following completion of the SAPPHIRE and SILVER trials, we will require substantial new funding to pursue development of ALT-711 and continue our operations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The amount of our future capital requirements will depend on numerous factors, including the progress of our discovery research programs, the initiation of pre-clinical tests and clinical trials, the development of regulatory submissions, the costs associated with protecting patents and other proprietary rights, the development of marketing and sales capabilities and the availability of third-party funding.

Because of our short-term and long-term capital requirements, we may seek access to the public or private equity markets whenever conditions are favorable. This may have the effect of materially diluting the current holders of our outstanding stock. We may also seek additional funding through corporate collaborations and other financing vehicles, potentially including off-balance sheet financing through limited partnerships or corporations. There can be no assurance that such funding will be available at all or on terms acceptable to us. If adequate funds are not available, we may be required to curtail significantly one or more of our research or development programs. If we obtain funds through arrangements with collaborative partners or others, we may be required to relinquish rights to certain of our technologies or product candidates.

Our current priorities are the evaluation and continued development of ALT-711, our lead A.G.E. Crosslink Breaker candidate and determining the optimal course for the continued development of additional A.G.E. Crosslink Breaker compounds and A.G.E.-Formation Inhibitors. We are focusing our resources on the development of ALT-711. As we continue clinical development of ALT-711, we are evaluating potential corporate partnerships for further development and ultimate marketing of the compound in territories throughout the world. We plan to retain development and marketing rights for one or several indications in the United States. In addition, we are exploring partnering and regulatory pathways for the continued development of pimagedine. As described above, we believe that additional development of this compound and other product candidates will require us to find additional sources of funding.

CRITICAL ACCOUNTING POLICIES

In December 2001, the U.S. Securities and Exchange Commission issued a statement concerning certain views of the Commission regarding the appropriate amount of disclosure by publicly held companies with respect to their critical accounting policies. In particular, the Commission expressed its view that in order to enhance investor understanding of financial statements, companies should explain the effects of critical accounting policies as they are applied, the judgments made in the application of these policies and the likelihood of materially different reported results if different assumptions or conditions were to prevail. We have since carefully reviewed the disclosures included in

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our filings with the Commission, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2002, and accompanying audited financial statements and related notes thereto. We believe the effect of the following accounting policy is significant to our results of operations and financial condition.

We account for options granted to employees and directors in accordance with APB Opinion No. 25, and related interpretations. As such, compensation expense is recorded on fixed stock grants only if the current fair value of the underlying stock exceeds the exercise price of the option at the date of grant and it is recognized on a straight-line basis over the vesting period. Based on the performance of our stock, we repriced certain employee stock options on February 2, 1999. As a result of this repricing, options to purchase 1.06 million shares of stock were repriced and certain vesting periods related to these options were modified or extended. Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, An Interpretation of APB Opinion No. 25," requires us to record compensation expense or benefit, which is adjusted every quarter, for increases or decreases in the fair value of the repriced options based on changes in our stock price from the value at July 1, 2000, until the repriced options are exercised, forfeited or expire at various dates through 2008. As a result, net loss applicable to common stockholders and net loss per share to common stockholders may be subject to volatility. Had we accounted for repricing of stock option grants in accordance with SFAS No. 123, the expense related to the vested options would have been recorded at the repricing date, and the expense related to non-vested options would have been recorded over the vesting period.

FORWARD-LOOKING STATEMENTS AND CAUTIONARY STATEMENTS

Statements in this Form 10-Q 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 and other forward-looking statements made by us or our representatives are based on a number of assumptions. The words "believe," "expect," "anticipate," "intend," "estimate" or other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, as they involve risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, including those set forth in this section and elsewhere in this Form 10-Q. These factors include, but are not limited to, the risks set forth below.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The forward-looking statements represent our judgment and expectations as of the date of this Report. We assume no obligation to update any such forward-looking statements.

IF WE DO NOT OBTAIN SUFFICIENT ADDITIONAL FUNDING TO MEET OUR NEEDS, WE MAY HAVE TO CURTAIL OR DISCONTINUE THE RESEARCH, PRODUCT DEVELOPMENT, PRE-CLINICAL TESTING AND CLINICAL TRIALS OF SOME OR ALL OF OUR PRODUCT CANDIDATES.

As of March 31, 2003, we had working capital of approximately \$17,384,000, including approximately \$20,494,000 of cash and cash equivalents and short-term investments. During 2003, we sold 2,300,000 shares of common stock, raising net

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proceeds of approximately \$7,655,000. Our cash used in operations for the three months ended March 31, 2003 and 2002, was approximately \$4,562,000 and \$2,295,000, respectively. We anticipate that at our current spending level, our existing available cash and cash equivalents and short-term investments will be adequate to satisfy our working capital requirements for our current operations through the first quarter of 2004. If it becomes necessary, we have the ability to quickly and significantly reduce the cash burn rate, as we have limited fixed commitments. Following completion of the SAPPHIRE and SILVER trials, we will require substantial new funding to pursue development of ALT-711 and continue our operations.

We will require, over the long-term, substantial new funding to pursue development and commercialization of ALT-711 and our other product candidates and continue our operations. We believe that satisfying these capital requirements over the long-term will require successful commercialization of our product candidates. However, it is uncertain whether or not any products will be approved or will be commercially successful. The amount of our future capital requirements will depend on numerous factors, including the progress of our research and development programs, the conduct of pre-clinical tests and clinical trials, the development of regulatory submissions, the costs associated with protecting patents and other proprietary rights, the development of marketing and sales capabilities and the availability of third-party funding.

Because of our short-term and long-term capital requirements, we, as stated above, may seek access to the public or private equity markets. This may have the effect of materially diluting the current holders of our outstanding stock. We may also seek additional funding through corporate collaborations and other financing vehicles, potentially including off-balance sheet financing through limited partnerships or corporations. There can be no assurance that such funding will be available at all or on terms acceptable to us. If we obtain funds through arrangements with collaborative partners or others, we may be required to relinquish rights to certain of our technologies or product candidates.

IF WE DO NOT SUCCESSFULLY DEVELOP ANY PRODUCTS, WE MAY NOT DERIVE ANY REVENUES.

We have not yet requested or received regulatory approval for any product from the United States Food and Drug Administration ("FDA") or any other regulatory body. All of our product candidates are still in research or clinical development. We may not succeed in the development and marketing of any therapeutic or diagnostic product. To achieve profitable operations, we must, alone or with others, successfully identify, develop, introduce and market proprietary products. Such products will require significant additional investment, development and pre-clinical and clinical testing prior to potential regulatory approval and commercialization.

The development of new pharmaceutical products is highly uncertain and subject to a number of significant risks. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. Potential products may be found ineffective or cause harmful side effects during pre-clinical testing or clinical trials, fail to receive necessary regulatory approvals, be difficult to manufacture on a large scale, be uneconomical, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties. We may not be able to undertake additional clinical trials. In addition, our product development efforts may not be successfully completed, we may not obtain regulatory approvals, and our products, if introduced, may not be successfully marketed or achieve customer acceptance. We do not expect any of our products, including ALT-711, to be commercially available for a number of years, if at all.

CLINICAL TRIALS REQUIRED FOR OUR PRODUCT CANDIDATES ARE EXPENSIVE AND TIME-CONSUMING, AND THEIR OUTCOME IS UNCERTAIN.

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Before obtaining regulatory approvals for the commercial sale of any of our products under development, we must demonstrate through pre-clinical studies and clinical trials that the product is safe and effective for use in each target indication. The length of time necessary to complete clinical trials varies significantly and may be difficult to predict. Factors which can cause delay or termination of our clinical trials include: (i) slower than expected patient enrollment due to the nature of the protocol, the proximity of patients to clinical sites, the eligibility criteria for the study, competition with clinical trials for other drug candidates or other factors; (ii) lower than expected retention rates of patients in a clinical trial; (iii) inadequately trained or insufficient personnel at the study site to assist in overseeing and monitoring clinical trials; (iv) delays in approvals from a study site's review board; (v) longer treatment time required to

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

demonstrate effectiveness or determine the appropriate product dose; (vi) lack of sufficient supplies of the product candidate; (vii) adverse medical events or side effects in treated patients; (viii) lack of effectiveness of the product candidate being tested and (ix) regulatory changes.

Even if we obtain positive results from pre-clinical or clinical trials for a particular product, we may not achieve the same success in future trials of that product. In addition, some or all of the clinical trials we undertake may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals, which could prevent the creation of marketable products. Our product development costs will increase if we have delays in testing or approvals, if we need to perform more or larger clinical trials than planned or if our trials are not successful. Delays in our clinical trials may harm our financial results and the commercial prospects for our products.

IF WE ARE UNABLE TO DERIVE REVENUES FROM PRODUCT SALES, WE MAY NEVER BE PROFITABLE.

All of our revenues to date have been generated from collaborative research agreements and financing activities, or interest income earned on these funds. We have not received any revenues from product sales. We may not realize product revenues on a timely basis, if at all.

At March 31, 2003, we had an accumulated deficit of approximately \$175,504,000. We anticipate that we will incur substantial, potentially greater, losses in the future. Our products under development may not be successfully developed and our products, if successfully developed, may not generate revenues sufficient to enable us to earn a profit. We expect to incur substantial additional operating expenses over the next several years as our research, development and clinical trial activities increase. We do not expect to generate revenues from the sale of products, if any, for a number of years. Our ability to achieve profitability depends, in part, on our ability to enter into agreements for product development, obtain regulatory approval for our products and develop the capacity, or enter into agreements, for the manufacture, marketing and sale of any products. We may not obtain required regulatory approvals, or successfully develop, manufacture, commercialize and market product candidates, and we may never achieve product revenues or profitability.

PRIOR STOCK OPTION REPRICING MAY HAVE AN ADVERSE EFFECT ON OUR FUTURE FINANCIAL PERFORMANCE.

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Based on the performance of our stock, we repriced certain employee stock options on February 2, 1999, in order to bolster employee retention. As a result of this repricing, options to purchase 1.06 million shares of stock were repriced and certain vesting periods related to these options were modified or extended. This repricing may have a material adverse impact on future financial performance based on the Financial Accounting Standards Board ("FASB") Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, An Interpretation of APB Opinion No. 25." This interpretation requires us to record compensation expense or benefit, which is adjusted every quarter, for increases or decreases in the fair value of the repriced options based on changes in our stock price from the value at July 1, 2000, until the repriced options are exercised, forfeited or expire. The options expire at various dates through January 2008.

IF WE ARE UNABLE TO FORM THE COLLABORATIVE RELATIONSHIPS THAT OUR BUSINESS STRATEGY REQUIRES, THEN OUR PROGRAMS WILL SUFFER AND WE MAY NOT BE ABLE TO DEVELOP PRODUCTS.

Our strategy for developing and deriving revenues from our products depends, in large part, upon entering into arrangements with research collaborators, corporate partners and others. We are seeking to establish these relationships to provide the funding necessary for continuation of our product development, but if such efforts are not successful, our programs may suffer and we may be unable to develop products.

IF WE ARE ABLE TO FORM OUR COLLABORATIVE RELATIONSHIPS, BUT ARE UNABLE TO MAINTAIN THEM, OUR PRODUCT DEVELOPMENT MAY BE DELAYED AND DISPUTES OVER RIGHTS TO TECHNOLOGY MAY RESULT.

We may form collaborative relationships that will, in some cases, make us dependent upon outside partners to conduct pre-clinical testing and clinical trials and to provide adequate funding for our development programs. Such corporate partners, if any, may have all or a significant portion of the development and regulatory approval responsibilities. Failure of the corporate partners to develop marketable products or to gain the appropriate regulatory approvals on a timely basis, if at all, would have a material adverse effect on our business, financial condition, results of operations and liquidity.

In most cases, we will not be able to control the amount and timing of resources that our corporate partners devote to our programs or potential products. If any of our corporate partners breached or terminated its agreement with us or otherwise failed to conduct its collaborative activities in a timely manner, the pre-clinical or clinical development or commercialization of product candidates or research programs could be delayed, and we would be

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

required to devote additional resources to product development and commercialization or terminate certain development programs.

Disputes may arise in the future with respect to the ownership of rights to any technology we develop with third parties. These and other possible disagreements between us and collaborators could lead to delays in the collaborative research, development or commercialization of product candidates, or could require or result in litigation or arbitration, which would be time-consuming and expensive and would have a material adverse effect on our business, financial condition, results of operations and liquidity.

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

IF WE CANNOT SUCCESSFULLY DEVELOP A MARKETING AND SALES FORCE OR MAINTAIN SUITABLE ARRANGEMENTS WITH THIRD PARTIES TO MARKET AND SELL OUR PRODUCTS, OUR ABILITY TO DELIVER PRODUCTS MAY BE IMPAIRED.

We currently have no experience in marketing or selling pharmaceutical products. In order to achieve commercial success for any approved product, we must either develop a marketing and sales force or, where appropriate or permissible, enter into arrangements with third parties to market and sell our products. We might not be successful in developing marketing and sales capabilities. Further, we may not be able to enter into marketing and sales agreements with others on acceptable terms, and any such arrangements, if entered into, may be terminated. If we develop our own marketing and sales capability, it will compete with other companies that currently have experienced, well funded and larger marketing and sales operations. To the extent that we enter into co-promotion or other sales and marketing arrangements with other companies, revenues will depend on the efforts of others, which may not be successful.

IF WE CANNOT SUCCESSFULLY FORM AND MAINTAIN SUITABLE ARRANGEMENTS WITH THIRD PARTIES FOR THE MANUFACTURING OF THE PRODUCTS WE MAY DEVELOP, OUR ABILITY TO DEVELOP OR DELIVER PRODUCTS MAY BE IMPAIRED.

We have no experience in manufacturing products for commercial purposes and do not have manufacturing facilities. Consequently, we are dependent on contract manufacturers for the production of products for development and commercial purposes. The manufacture of our products for clinical trials and commercial purposes is subject to cGMP regulations promulgated by the FDA. In the event that we are unable to obtain or retain third-party manufacturing for our products, we will not be able to commercialize such products as planned. We may not be able to enter into agreements for the manufacture of future products with manufacturers whose facilities and procedures comply with cGMP and other regulatory requirements. Our current dependence upon others for the manufacture of our products may adversely affect our profit margin, if any, on the sale of future products and our ability to develop and deliver such products on a timely and competitive basis.

IF WE ARE NOT ABLE TO PROTECT THE PROPRIETARY RIGHTS THAT ARE CRITICAL TO OUR SUCCESS, THE DEVELOPMENT AND ANY POSSIBLE SALES OF OUR PRODUCT CANDIDATES COULD SUFFER AND COMPETITORS COULD FORCE OUR PRODUCTS COMPLETELY OUT OF THE MARKET.

Our success will depend on our ability to obtain patent protection for our products, preserve our trade secrets, prevent third parties from infringing upon our proprietary rights and operate without infringing upon the proprietary rights of others, both in the United States and abroad.

The degree of patent protection afforded to pharmaceutical inventions is uncertain and our potential products are subject to this uncertainty. Competitors may develop competitive products outside the protection that may be afforded by the claims of our patents. We are aware that other parties have been issued patents and have filed patent applications in the United States and foreign countries with respect to other agents that have an effect on Advanced Glycation End-products ("A.G.E.s.") or the formation of A.G.E. crosslinks. In addition, although we have several patent applications pending to protect

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proprietary technology and potential products, these patents may not be issued, and the claims of any patents, which do issue, may not provide significant protection of our technology or products. In addition, we may not enjoy any patent protection beyond the expiration dates of our currently issued patents.

We also rely upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to maintain, develop and expand our competitive position, which we seek to protect, in part, by confidentiality agreements with our corporate partners, collaborators, employees and consultants. We also have invention or patent assignment agreements with our employees and certain, but not all, corporate partners and consultants. Relevant inventions may be developed by a person not bound by an invention assignment agreement.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Binding agreements may be breached, and we may not have adequate remedies for such breach. In addition, our trade secrets may become known to or be independently discovered by competitors.

IF WE FAIL TO OBTAIN REGULATORY APPROVALS FOR OUR PRODUCTS, THE COMMERCIAL USE OF OUR PRODUCTS WILL BE LIMITED.

Our research, pre-clinical testing and clinical trials of our product candidates are, and the manufacturing and marketing of our products will be, subject to extensive and rigorous regulation by numerous governmental authorities in the United States and in other countries where we intend to test and market our product candidates.

Prior to marketing, any product we develop must undergo an extensive regulatory approval process. This regulatory process, which includes pre-clinical testing and clinical trials and may include post-marketing surveillance of each compound to establish its safety and efficacy, can take many years and can require the expenditure of substantial resources. Data obtained from pre-clinical and clinical activities is susceptible to varying interpretations that could delay, limit or prevent regulatory approval. In addition, we may encounter delays or rejections based upon changes in FDA policy for drug approval during the period of product development and FDA regulatory review of each submitted new drug application ("NDA"). We may encounter similar delays in foreign countries. We may not obtain regulatory approval for the drugs we develop. Moreover, regulatory approval may entail limitations on the indicated uses of the drug. Further, even if we obtain regulatory approval, a marketed drug and its manufacturer are subject to continuing review and discovery of previously unknown problems with a product or manufacturer which may have adverse effects on our business, financial condition and results of operations, including withdrawal of the product from the market. Violations of regulatory requirements at any stage, including pre-clinical testing, clinical trials, the approval process or post-approval, may result in various adverse consequences, including the FDA's delay in approving, or its refusal to approve a product, withdrawal of an approved product from the market and the imposition of criminal penalties against the manufacturer and NDA holder. None of our products has been approved for commercialization in the United States or elsewhere. We may not be able to obtain FDA approval for any products. Failure to obtain requisite governmental approvals or failure to obtain approvals of the scope requested will delay or preclude our licensees or marketing partners from marketing our products or limit the commercial use of such products and will have a material adverse effect on our business, financial condition, results of

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operations and liquidity.

IF WE ARE NOT ABLE TO COMPETE SUCCESSFULLY WITH OTHER COMPANIES IN THE DEVELOPMENT AND MARKETING OF CURES AND THERAPIES FOR CARDIOVASCULAR DISEASES, DIABETES AND THE OTHER CONDITIONS FOR WHICH WE SEEK TO DEVELOP PRODUCTS, WE MAY NOT BE ABLE TO CONTINUE OUR OPERATIONS.

We are engaged in pharmaceutical fields characterized by extensive research efforts and rapid technological progress. Many established pharmaceutical and biotechnology companies with resources greater than ours are attempting to develop products that would be competitive with our products. Other companies may succeed in developing products that are safer, more efficacious or less costly than any we may develop and may also be more successful than us in production and marketing. Rapid technological development by others may result in our products becoming obsolete before we recover a significant portion of the research, development or commercialization expenses incurred with respect to those products.

Certain technologies under development by other pharmaceutical companies could result in better treatments for cardiovascular disease, or diabetes and its related complications. Several large companies have initiated or expanded research, development and licensing efforts to build pharmaceutical franchises focusing on these medical conditions. It is possible that one or more of these initiatives may reduce or eliminate the market for some of our products. In addition, other companies have initiated research in the inhibition or crosslink breaking of A.G.E.s.

IF GOVERNMENTS AND THIRD-PARTY PAYERS CONTINUE THEIR EFFORTS TO CONTAIN OR DECREASE THE COSTS OF HEALTHCARE, WE MAY NOT BE ABLE TO COMMERCIALIZE OUR PRODUCTS SUCCESSFULLY.

In certain foreign markets, pricing and/or profitability of prescription pharmaceuticals are subject to government control. In the United States, we expect that there will continue to be federal and state initiatives to control and/or reduce pharmaceutical expenditures. In addition, increasing emphasis on managed care in the United States will continue to put pressure on pharmaceutical pricing. Cost control initiatives could decrease the price that we receive for any products we may develop and sell in the future and have a material adverse effect on our business, financial condition and results of operations. Further, to the extent that cost control initiatives have a material adverse effect on our corporate partners, our ability to commercialize our products may be adversely affected.

Our ability to commercialize pharmaceutical products may depend, in part, on the extent to which reimbursement for the products will be available from government health administration authorities, private health insurers and other third-party payers. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products, and third-party payers, including Medicare, are increasingly challenging the prices charged for

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

medical products and services. Third-party insurance coverage may not be available to patients for any products developed by us. Government and other third-party payers are attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new therapeutic products and by refusing in some cases to provide coverage for uses of approved products for

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disease indications for which the FDA has not granted labeling approval. If adequate coverage and reimbursement levels are not provided by government and other third-party payers for our products, the market acceptance of these products would be adversely affected.

IF THE USERS OF THE PRODUCTS WE DEVELOP CLAIM THAT OUR PRODUCTS HAVE HARMED THEM, WE MAY BE SUBJECT TO COSTLY AND DAMAGING PRODUCT LIABILITY LITIGATION, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS.

The use of any of our potential products in clinical trials and the sale of any approved products, including the testing and commercialization of ALT-711 or other compounds, exposes us to liability claims resulting from the use of products or product candidates. A claim, which was subsequently settled, was made by a participant in one of our clinical trials, and additional claims might be made directly by other such participants, consumers, pharmaceutical companies or others. We maintain product liability insurance coverage for claims arising from the use of our products in clinical trials. However, coverage is becoming increasingly expensive, and we may not be able to maintain or acquire insurance at a reasonable cost or in sufficient amounts to protect us against losses due to liability that could have a material adverse effect on our business, financial conditions and results of operations. We may not be able to obtain commercially reasonable product liability insurance for any product approved for marketing in the future and insurance coverage and our resources may not be sufficient to satisfy any liability resulting from product liability claims. A successful product liability claim or series of claims brought against us could have a material adverse effect on our business, financial condition, results of operations and liquidity.

IF WE ARE UNABLE TO ATTRACT AND RETAIN THE KEY PERSONNEL ON WHOM OUR SUCCESS DEPENDS, OUR PRODUCT DEVELOPMENT, MARKETING AND COMMERCIALIZATION PLANS COULD SUFFER.

We are highly dependent on the principal members of our management and scientific staff. The loss of services of any of these personnel could impede the achievement of our development objectives. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future will also be critical to our success. We may not be able to attract and retain personnel on acceptable terms given the competition between pharmaceutical and healthcare companies, universities and non-profit research institutions for experienced scientists. In addition, we rely on consultants to assist us in formulating our research and development strategy. All of our consultants are employed outside of us and may have commitments to or consulting or advisory contracts with other entities that may limit their availability to us.

OUR OPERATIONS INVOLVE A RISK OF INJURY OR DAMAGE FROM HAZARDOUS MATERIALS, AND IF AN ACCIDENT WERE TO OCCUR, WE COULD BE SUBJECT TO COSTLY AND DAMAGING LIABILITY CLAIMS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Our research and development activities involve the controlled use of hazardous materials and chemicals. Although we believe that our safety procedures for handling and disposing of hazardous materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of an accident, we could be held liable for any damages or fines that result. Such liability could have a material adverse effect on our business, financial condition, results of operations and liquidity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Our exposure to market risk for changes in interest rates relates primarily to our investments in short-term marketable securities. We do not use derivative financial instruments. Our investments consist primarily of debt instruments of the U.S. government, government agencies, financial institutions and corporations with strong credit ratings. We prepared a detailed market risk disclosure of these investments in our 2002 Annual Report on Form 10-K. There have been no material changes in our market risk position since December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures. Within the 90 days prior to the filing date of this Quarterly Report on Form 10-Q, our Chief Executive Officer and our Vice President, Finance, evaluated the effectiveness of Alteon's disclosure controls and procedures as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and the Vice President, Finance, have concluded that Alteon's current disclosure controls and procedures are adequate and effective to

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ensure that information required to be disclosed in the reports Alteon files under the Exchange Act is recorded, processed, summarized and reported on a timely basis.

b) Changes in internal controls. There have been no significant changes in Alteon's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation by the Chief Executive Officer and the Vice President, Finance.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On August 5, 2002, Lisa Weller, a former Alteon employee, filed suit against Alteon in the Superior Court of New Jersey asserting claims for alleged pregnancy, sex and handicap discrimination, wrongful termination and intentional infliction of emotional distress, all arising from the company's termination of her employment as an executive assistant. Alteon removed the case to the United States District Court for the District of New Jersey. In December 2002, we agreed to a settlement with Ms. Weller under which we deny all liability in exchange for a dismissal and release by Ms. Weller of any and all claims against us. The settlement is currently being executed by both parties.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

See Exhibit Index on page 22 for Exhibits filed with this Quarterly Report on Form 10-Q.

b) The following reports on Form 8-K was filed during the quarter ended March 31, 2003:

On March 27, 2003, the Company filed a Current Report on Form 8-K, dated March 26, 2003, which reported that the Company had agreed to sell 2,300,000 shares of its common stock to institutional investors.

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On January 3, 2003, the Company filed a Current Report on Form 8-K, dated December 27, 2002, which reported that the Company had raised \$646,500 through the sale of net operating loss carryforwards under the State of New Jersey's Technology Business Tax Certificate Transfer Program and that the Company had closed a previously reported stock purchase agreement to sell common stock to a group of institutional investors.

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SIGNATURES

Pursuant to the requirements 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.

Date: May 12, 2003

ALTEON INC.

By: /s/Kenneth I. Moch

Kenneth I. Moch
President and Chief Executive Officer
(principal executive officer)

By: /s/Elizabeth A. O'Dell

Elizabeth A. O'Dell
Vice President, Finance
Secretary and Treasurer
(principal accounting officer)

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CERTIFICATIONS

I, Kenneth I. Moch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alteon Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present, in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as

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defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 12, 2003

/s/ Kenneth I. Moch

Kenneth I. Moch
President and Chief Executive Officer

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CERTIFICATIONS

I, Elizabeth O'Dell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alteon Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances

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under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present, in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 12, 2003

/s/ Elizabeth A. O'Dell

Elizabeth A. O'Dell
Vice President, Finance
Secretary and Treasurer

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INDEX TO EXHIBITS

| 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, S.E.C. File Number 000-19529.) |
| 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 Alteon Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, S.E.C. File Number 001-16043.) |
| 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, S.E.C. File Number 000-19529.) |
| 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, S.E.C. File Number 000-19529.) |
| 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, S.E.C. File Number 000-19529.) |
| 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, S.E.C. File Number 000-19529.) |
| 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, S.E.C. File Number 000-19529.) |
| 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, S.E.C. File Number 001-16043.) |
| 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, S.E.C. File Number 001-16043.) |
| 3.10 | By-laws, as amended. (Incorporated by reference to Exhibit 3.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, S.E.C. File Number 001-16043.) |
| 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 |

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Report on Form 10-K for the year ended December 31, 2000, S.E.C. File Number 001-16043.)

- 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, S.E.C. File Number 000-19529.)
- 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, S.E.C. File Number 000-19529.)
- 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, S.E.C. File Number 000-19529.)
- 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, S.E.C. File Number 000-19529.)
- 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, S.E.C. File Number 001-16043.)

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- 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, S.E.C. File Number 001-16043.)
- 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, S.E.C. File Number 001-16043.)
- 4.9 Notice of Appointment, dated August 29, 2002, of The American Stock Transfer & Trust Company as successor Rights Agent, pursuant to Stockholders' Rights Agreement dated as of July 27, 1995. (Incorporated by reference to Exhibit 4.4 of the Company's Report on Form 10-Q filed on November 13, 2002, S.E.C. File Number 001-16043.)
- 10.1+ Letter Agreement, dated May 5, 2003, between the Company and Robert C. deGroof, Ph.D., amending Employment Agreement, dated as of March 14, 2000.
- 99.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 6(a) of this Form 10-Q.

