

ATHEROGENICS INC
Form 10-Q
August 13, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

Commission File No. 0-31261

ATHEROGENICS, INC.

(Exact name of registrant as specified in its charter)

Georgia
(State of incorporation)

58-210832
(I.R.S. Employer Identification Number)

8995 Westside Parkway, Alpharetta, Georgia 30004
(Address of registrant's principal executive offices, including zip code)

(Registrant's telephone number, including area code): **(678) 336-2500**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

As of August 12, 2002, there were 27,970,669 shares of the registrant's common stock outstanding.

ATHEROGENICS, INC.
FORM 10-Q
INDEX

PART I. **Page No.**

**FINANCIAL
INFORMATION**

Item 1. Financial
Statements
(unaudited)

Condensed
Balance Sheets
June 30,
2002 and
December
31, 2001 3

Condensed
Statements of
Operations
Three and
six months
ended June
30, 2002
and 2001 4

Condensed
Statements of
Cash Flows
Six months
ended June
30, 2002
and 2001 5

Notes to
Condensed
Financial
Statements 6

Item 2.
Management's
Discussion and
Analysis of
Financial
Condition

7

and Results
of
Operations

Item 3.	10
Quantitative and Qualitative Disclosures About Market Risk	

**PART II.
OTHER
INFORMATION**

Item 2. Changes in Securities and Use of Proceeds	11
---	----

Item 4. Submission of Matters to a Vote of Security Holders	11
--	----

Item 6. Exhibits and Reports on Form 8-K	12
--	----

SIGNATURES	13
-------------------	----

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

**ATHEROGENICS, INC.
CONDENSED BALANCE SHEETS**

	June 30, 2002	December 31, 2001
	<u> </u>	<u> </u>
ASSETS	(Unaudited)	(Audited)

Current assets:

Edgar Filing: ATHEROGENICS INC - Form 10-Q

Cash and cash equivalents	\$ 28,517,229	\$ 28,682,050
Short-term investments	18,081,797	29,757,945
Prepaid expenses, notes receivable and other current assets	515,777	576,734
	<hr/>	<hr/>
Total current assets	47,114,803	59,016,729
Fixed assets, net of accumulated depreciation	2,951,741	2,915,512
Notes receivable, net of current portion	451,351	323,037
	<hr/>	<hr/>
Total assets	\$ 50,517,895	\$ 62,255,278
	<hr/>	<hr/>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 701,499	\$ 1,121,550
Accrued research and development costs	1,511,418	1,307,435
Accrued liabilities	677,531	541,809
Accrued compensation	565,155	902,571
Current portion of equipment loan facility and capitalized lease obligation	364,898	87,101
Total current liabilities	3,820,501	3,960,466
Equipment loan facility, net of current portion	532,143	--
Shareholders' equity:		
Preferred stock, no par value: Authorized - 5,000,000 shares	--	--
Common stock, no par value: Authorized - 100,000,000 shares; issued and outstanding - 27,932,351 and 27,834,773 shares at June 30, 2002 and December 31, 2001, respectively	121,931,045	121,723,102
Warrants	769,306	771,713
Deferred stock compensation	(2,123,683)	(2,975,314)
Accumulated deficit	(74,414,196)	(61,277,987)
Accumulated other comprehensive income	2,779	53,298
	<hr/>	<hr/>
Total shareholders' equity	46,165,251	58,294,812
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 50,517,895	\$ 62,255,278
	<hr/>	<hr/>

The accompanying notes are an integral part of these condensed financial statements.

ATHEROGENICS, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Revenues:				
License fees	\$ --	\$ 277,778	\$ --	\$ 1,111,111
Research and development	--	203,467	--	800,556
Total revenues	--	481,245	--	1,911,667
Operating expenses:				
Research and development	5,317,582	3,846,895	10,703,196	7,418,783
General and administrative	1,024,849	946,621	2,008,195	1,895,272
Amortization of deferred stock compensation	499,323	225,576	998,646	1,020,393
Total operating expenses	6,841,754	5,019,092	13,710,037	10,334,448
Operating loss	(6,841,754)	(4,537,847)	(13,710,037)	(8,422,781)
Net interest income	269,260	588,570	573,828	1,372,876
Net loss	\$ (6,572,494)	\$ (3,949,277)	\$ (13,136,209)	\$ (7,049,905)
Net loss per share - basic and diluted	\$ (0.24)	\$ (0.16)	\$ (0.47)	\$ (0.29)
Weighted average shares outstanding - basic and diluted	27,925,386	24,483,242	27,900,963	24,212,963

The accompanying notes are an integral part of these condensed financial statements.

ATHEROGENICS, INC
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Edgar Filing: ATHEROGENICS INC - Form 10-Q

	Six months ended	
	June 30,	
	2002	2001
	<hr/>	<hr/>
Operating activities:		
Net loss	\$ (13,136,209)	\$ (7,049,905)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	359,113	224,215
Amortization of deferred stock compensation	998,646	1,020,393
Stock issued for services	--	29,778
Changes in operating assets and liabilities:		
Accounts receivable	--	885,086
Prepaid expenses, notes receivable and other assets	(67,357)	(102,206)
Accounts payable	(420,051)	(219,592)
Accrued liabilities	2,289	363,887
Deferred revenues	--	(1,111,111)
	<hr/>	<hr/>
Net cash used in operating activities	(12,263,569)	(5,959,455)
Investing activities:		
Purchases of equipment and leasehold improvements	(395,342)	(556,358)
Sales of short-term investments	11,625,629	22,958,316
	<hr/>	<hr/>
Net cash provided by investing activities	11,230,287	22,401,958
Financing activities:		
Proceeds from equipment loan facility	936,851	--
Payments on capital lease and equipment loan facility	(126,911)	(79,930)
Proceeds from the issuance of common stock in a private placement	--	20,613,750
Proceeds from the exercise of common stock options	58,521	69,450
	<hr/>	<hr/>
Net cash provided by financing activities	868,461	20,603,270
	<hr/>	<hr/>
(Decrease) increase in cash and cash equivalents	(164,821)	37,045,773
Cash and cash equivalents at beginning of period	28,682,050	26,463,070
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 28,517,229	\$ 63,508,843
	<hr/>	<hr/>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 17,255	\$ 17,157
Valuation adjustment for variable options and warrants issued for technology license agreement	147,015	--

The accompanying notes are an integral part of these condensed financial statements.

ATHEROGENICS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed financial statements reflect all adjustments (consisting solely of normal recurring adjustments) which management considers necessary for a fair presentation of the financial position, results of operations and cash flows of AtheroGenics for the interim periods presented. Certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted from the interim financial statements as permitted by the rules and regulations of the Securities and Exchange Commission. Interim results are not necessarily indicative of results for the full year.

The interim results should be read in conjunction with the financial statements and notes thereto included in AtheroGenics' Annual Report on Form 10-K for the year ended December 31, 2001. Shareholders are encouraged to review the Form 10-K for a broader discussion of AtheroGenics' opportunities and risks inherent in the business. Copies of the Form 10-K are available on request.

2. Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") Nos. 141, *Business Combinations* and SFAS 142, *Accounting for Goodwill and Other Intangibles* ("SFAS 141" and "SFAS 142"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and provides new criteria for determining whether an acquired intangible asset should be recognized separately from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Intangible assets that have finite lives will continue to be amortized over their useful lives. The adoption of SFAS 141 and SFAS 142 has had no impact on AtheroGenics' financial statements.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, ("SFAS 144") which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. SFAS 144 establishes a new method of accounting and reporting for the impairment of long-lived assets other than goodwill and intangible assets. The statement provides a single accounting model for long-lived assets to be disposed of and changes the criteria required to classify an asset as held-for-sale. The adoption of SFAS 144 has had no impact on AtheroGenics' financial statements.

3. Net Loss per Share

SFAS No. 128, *Earnings per Share*, requires presentation of both basic and diluted earnings per share. Basic earnings per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed in the same manner as basic earnings per share except that diluted earnings per share reflects the potential dilution that would occur if outstanding options and

warrants were exercised. Because AtheroGenics reported a net loss for all periods presented, shares associated with stock options and warrants are not included because they are antidilutive. Basic and diluted net loss per share amounts are the same for these periods.

4. Deferred Stock Compensation

During 2000 and 1999, in connection with the grant of certain options to employees and directors, AtheroGenics recorded non-cash deferred stock compensation of \$12,093,928 and \$1,895,160, respectively, representing the difference between the exercise price and the deemed fair value of AtheroGenics' common stock on the dates these stock options were granted. These amounts are included as a reduction of shareholders' equity and are being amortized over the vesting periods of the individual options, generally four years, using the graded vesting method. The graded vesting method provides for vesting of portions of the overall award at interim dates and results in higher vesting in earlier years than straight-line vesting. The fair value of AtheroGenics' common stock for purposes of this calculation was determined based on the business factors underlying the value of common stock on the date such option grants were made. During the six months ended June 30, 2002, AtheroGenics recorded a total of \$784,020 of

6

amortization of deferred stock compensation, as compared to \$911,193 during the same period in 2001. Through June 30, 2002, the deferred stock compensation has been decreased by \$1,395,735 for options that were forfeited.

During 2001, in connection with the grant of certain warrants as part of a licensing agreement with National Jewish Medical and Research Center regarding MEK kinases technology and options granted for the addition of new members to our Scientific Advisory Board, AtheroGenics recorded non-cash deferred stock compensation of \$1,092,000. The fair value of the warrants and options for purposes of this calculation was determined by using the Black Scholes model. These amounts are included as a reduction of shareholders' equity and are being amortized over the vesting periods of the individual warrants and options, generally four years, using the graded vesting method. At March 31, 2002, AtheroGenics recorded an additional \$147,015 in deferred stock compensation to properly reflect the current fair market value of these warrants and options. During the six months ended June 30, 2002, AtheroGenics recorded a total of \$214,626 of amortization of deferred stock compensation, as compared to \$109,200 during the same period in 2001 for these warrants and options.

At June 30, 2002, AtheroGenics had a total of \$2,123,683 remaining to be amortized over the vesting periods of all stock options and warrants.

5. Bank Credit Agreements

In March 2002, AtheroGenics entered into a revolving credit facility with Silicon Valley Bank for up to a maximum amount of \$5,000,000 to be used for working capital requirements. Under the terms of the facility, interest on advances is charged at the Bank's prime rate plus 1.50% per year, provided that certain liquidity levels are maintained; otherwise interest will be charged at prime rate plus 2.0% per year. Amounts borrowed under the revolving credit facility may be repaid and reborrowed at any time and from time to time during the term of the facility. The revolving line of credit terminates on September 5, 2004 and all outstanding amounts and accrued interest will be due and payable on that date. As of June 30, 2002, there were no outstanding balances under the revolving credit facility.

In addition, in March 2002, AtheroGenics entered into an equipment loan facility with Silicon Valley Bank for up to a maximum amount of \$2,500,000 to be used to finance existing and new equipment purchases. Under the terms of the facility, AtheroGenics may request up to six equipment advances until September 6, 2002. The interest rate on the equipment advances will be equal to the greater of (1) the Bank's prime rate plus 3.0% or (2) 7.5% per year and will

be fixed at the time of each advance. Amounts borrowed under the equipment loan facility will be repaid in 33 equal installments of principal and interest beginning on the first business day of the month following an advance. As of June 30, 2002, there was an outstanding balance of \$854,150 under the equipment loan facility.

As collateral for the revolving credit facility and for the equipment loan facility, AtheroGenics granted to Silicon Valley Bank a security interest in all of its assets other than its intellectual property, and granted a negative pledge on its intellectual property.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read with the financial statements and related footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in AtheroGenics' Annual Report on Form 10-K. The results discussed below are not necessarily indicative of the results to be expected in any future periods. The following discussion contains forward-looking statements that are subject to risks and uncertainties which could cause actual results to differ from the statements made.

OVERVIEW

Since our operations began in 1994, we have focused on the discovery, development and commercialization of novel drugs for the treatment of chronic inflammatory diseases, such as atherosclerosis, rheumatoid arthritis and asthma. Based on our proprietary vascular protectant technology platform, we have advanced three drug candidates into development, and are progressing on a number of other pre-clinical programs. Our lead drug candidate, AGI-1067, is currently in a Phase IIb clinical trial for atherosclerosis and post-angioplasty restenosis. We are currently working in cooperation with the Food and Drug Administration to define the Phase III clinical development program for AGI-1067 as an oral therapy for atherosclerosis in patients with established coronary artery disease. Our second drug candidate, AGIX-4207, has completed initial Phase I clinical trials in both oral and intravenous formulations which

7

assessed the safety and tolerability for the treatment of rheumatoid arthritis, and we are preparing for Phase II clinical trials. Our third drug candidate, AGI-1096, is in Phase I clinical trials to assess the safety and tolerability of this compound, which is being developed for the prevention of transplant rejection.

To date, we have devoted substantially all of our resources to research and development. We have not received any commercial revenues from product sales. Revenues have been derived from certain license fees of a non-recurring nature received in connection with entering into an exclusive license agreement. We terminated this exclusive license agreement in October 2001. We expect to incur significant losses in most years prior to deriving any product revenue as we continue to increase research and development costs. We have incurred significant losses since we began operations in 1994 and as of June 30, 2002, we had an accumulated deficit of \$74.4 million. We cannot assure you that we will become profitable. We expect that losses will fluctuate from quarter to quarter and that these fluctuations may be substantial. Our ability to achieve profitability depends upon a variety of factors, including our ability, alone or with others, to complete the successful development of our product candidates, to obtain required regulatory clearances, and to manufacture and market our future products.

RESULTS OF OPERATIONS

Comparison of the Three and Six Month Periods Ended June 30, 2002 and 2001

Revenues

There were no revenues during the three and six months ended June 30, 2002, compared to \$481,245 and \$1.9 million, respectively, during the same periods in 2001. Last year's revenues reflected the amortization of a \$5.0 million license fee payment and research and development revenue attributable to a license agreement that we terminated in October 2001.

Expenses

Research and Development. Research and development expenses increased 38% to \$5.3 million for the quarter ended June 30, 2002, from \$3.8 million for the comparable period in 2001, and 44% to \$10.7 million for the six months ended June 30, 2002 from \$7.4 million in the comparable period in 2001. The increase in research and development expenses for the three and six months ended June 30, 2002, was primarily due to higher costs associated with conducting clinical trials for AGI-1067 and AGIX-4207 I.V.

General and Administrative. General and administrative expenses increased 8% to \$1.0 million for the quarter ended June 30, 2002, from \$946,621 for the comparable period in 2001, and 6% to \$2.0 million for the six months ended June 30, 2002 from \$1.9 million in the comparable period in 2001. The increase in general and administrative expenses for the three and six months ended June 30, 2002, was due to increased recruiting and relocation costs in addition to the impact of ordinary increases in compensation and administrative operating costs.

Amortization of Deferred Stock Compensation. In 2000 and 1999, we recorded non-cash deferred stock compensation totaling approximately \$14.0 million for options granted with exercise prices below the deemed fair value for financial reporting purposes of our common stock on their respective grant dates. In June 2001, we recorded non-cash deferred stock compensation totaling approximately \$1.1 million for certain warrants granted in connection with a licensing agreement with National Jewish Medical and Research Center and options granted to new members of our Scientific Advisory Board. Amortization of deferred stock compensation was \$499,323 for the quarter ended June 30, 2002, compared to \$255,576 for the same period in 2001, and \$998,646 for the six months ended June 30, 2002 compared to \$1.0 million for the same period in 2001. The increase in the quarter ended June 30, 2002 is due to the additional deferred stock compensation related to the National Jewish options and warrants. The decrease in the six months ended June 30, 2002 is due to the deferred stock compensation being amortized using the graded vesting method, which results in higher amortization in the earlier years.

Net Interest Income

Net interest income decreased 54% from \$588,750 for the quarter ended June 30, 2001 to \$269,260 for the quarter ended June 30, 2002. Net interest income decreased 58% from \$1.4 million six months ended June 30, 2001 to \$573,828 for the six months ended June 30, 2002. The decrease in net interest income is a reflection of lower average interest rates and lower investment balances.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have financed our operations primarily through private placements of our stock and our initial public offering in August 2000 that raised net proceeds of \$49.4 million. At June 30, 2002, we had cash, cash equivalents and short-term investments of \$46.6 million, compared with \$58.4 million at December 31, 2001. Working capital at June 30, 2002 was \$43.3 million, compared to \$55.1 million at December 31, 2001. The decrease

in cash, cash equivalents, short-term investments and working capital is primarily due to the use of funds for operating purposes and purchases of equipment.

Net cash used in operating activities was \$12.3 million for the six months ended June 30, 2002, compared to \$6.0 million for the six months ended June 30, 2001. The increase in the use of cash in operating activities is principally due to increased expenditures for the CART-2 Phase IIb study for AGI-1067 and Phase I clinical trials for AGIX-4207 I.V.

Net cash provided by investing activities was \$11.2 million for the six months ended June 30, 2002, compared to \$22.4 million provided by investing activities for the six months ended June 30, 2001. Net cash provided by investing activities during the six months ended June 30, 2002 and 2001 consisted primarily of the sales of short-term investments, with the proceeds reinvested in interest bearing cash equivalents, partially offset by the purchase of equipment and leasehold improvements.

Net cash provided by financing activities was \$868,461 for the six months ended June 30, 2002, compared to \$20.6 million provided by financing activities for the same period in 2001. Net cash provided by financing activities in the six months ended June 30, 2002 consisted primarily of proceeds from the equipment loan facility and exercise of common stock options offset by capital lease payments. Net cash provided by financing activities in the six months ended June 30, 2001 consisted of proceeds of \$20.6 million from the private placement of 3.6 million shares of our common stock. In March 2002, we entered into a revolving credit facility with Silicon Valley Bank in the amount of up to \$5.0 million to be used for working capital requirements. In addition, we entered into an equipment loan facility with Silicon Valley Bank in the amount of up to \$2.5 million to be used to finance existing and new equipment purchases. At June 30, 2002 there was no outstanding balance on the revolving credit facility and an outstanding balance of \$854,150 on the equipment loan facility.

Based upon the current status of our product development and commercialization plans, we believe that our existing cash and cash equivalents, along with our revolving credit facility and equipment loan facility with Silicon Valley Bank, will be adequate to satisfy our capital needs for at least the next 12 months. However, our actual capital requirements will depend on many factors, including:

- the status of product development;
- the time and cost involved in conducting clinical trials and obtaining regulatory approvals;
- the costs of filing, prosecuting and enforcing patent and other intellectual property claims;
- competing technological and market developments; and
- our ability to market and distribute our future products and establish new licensing agreements.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of AtheroGenics. AtheroGenics and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in this report and our other filings with the Securities and Exchange Commission and in our reports to our shareholders. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "will" and similar expressions identify forward-looking statements. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, such as projections about our future results of operations or our financial condition, research, development and commercialization of our product candidates and anticipated trends in our business, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on

management's then current views and assumptions regarding future events and operating performance, and speak only as of their dates. AtheroGenics undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following are some of the factors that could affect our financial performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements:

- AGI-1067, AGIX-4207, AGIX-4207 I.V. and AGI-1096 may fail in clinical trials;
- our ability to generate positive cash flow in light of our history of operating losses;
- our ability to successfully develop our other product candidates;
- our ability to commercialize our product candidates if we fail to demonstrate adequately their safety and efficacy;
- possible delays in our clinical trials;
- our inability to predict whether or when we will obtain regulatory approval to commercialize our product candidates or the timing of any future revenue from these product candidates;
- our need to comply with applicable regulatory requirements in the manufacture and distribution of our products to avoid incurring penalties that may inhibit our ability to commercialize our products;
- our ability to protect adequately or enforce our intellectual property rights or secure rights to third party patents;
- the ability of our competitors to develop and market anti-inflammatory products that are more effective, have fewer side effects or are less expensive than our current or future product candidates;
- third parties' failure to synthesize and manufacture our product candidates could delay our clinical trials or hinder our commercialization prospects;
- our ability to create sales, marketing and distribution capabilities or enter into agreements with third parties to perform these functions;
- our ability to attract, retain and motivate skilled personnel and cultivate key academic collaborations;
- our inability to obtain additional financing on satisfactory terms, which could preclude us from developing or marketing our products;
- our ability to obtain an adequate level of reimbursement or acceptable prices for our products; and
- if plaintiffs bring product liability lawsuits against us, we may incur substantial financial loss or may be unable to obtain future product liability insurance at reasonable prices, if at all, either of which could diminish our ability to commercialize our future products.

The foregoing list of important factors is not exclusive.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position, operating results or cash flows due to changes in U.S. interest rates. This exposure is directly related to our normal operating activities. Our cash, cash equivalents and short-term investments are invested with high quality issuers and are generally of a short-term nature. Interest rates payable on our lease obligations are generally fixed. As a result, we do not believe that near-term changes in interest rates will have a material effect on our future results of operations.

PART II - OTHER INFORMATION**Item 2. Changes in Securities and Use of Proceeds**

The Securities and Exchange Commission declared our Registration Statement on Form S-1 (File No. 333-31140) effective August 8, 2000. The net proceeds from the sale of the 6,900,000 shares of common stock registered pursuant to the Registration Statement (including the exercise of the underwriters' over-allotment option) were \$49.4 million after deducting underwriting discounts of \$3.9 million and offering expenses of \$1.9 million.

We expect to use the proceeds from our initial public offering for research and development activities, including clinical trials, process development and manufacturing support, and for general corporate purposes, including working capital. A portion of the proceeds may be used to acquire or invest in complementary businesses, products or technologies. As of June 30, 2002, the proceeds have been applied toward:

- purchases of fixed assets and leasehold improvements, \$2.0 million;
- operating activities, \$25.0 million; and
- investments in highly liquid, interest bearing, investment grade securities, \$22.4 million.

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

Our annual meeting of shareholders was held on April 24, 2002. At the annual meeting, the shareholders of AtheroGenics (1) elected three Class II directors to serve until the 2005 Annual Meeting of Shareholders and (2) ratified the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2002.

We had 27,891,756 shares of common stock outstanding as of March 1, 2002, the record date of the annual meeting. At the annual meeting, we had 21,748,228 share of common stock present in person or represented by proxy for the two proposals indicated above. The following sets forth detailed information regarding the results of the voting at the annual meeting:

Proposal 1. Election of three
Class II directors

<u>Name of Nominee</u>	<u>No. of Votes For</u>	<u>No. of Votes Withheld</u>
R. Wayne Alexander	21,719,628	28,600
William A. Scott	21,719,028	29,200
Stephen A. Sudovar	21,708,063	40,165

Proposal 2. Ratifications of the appointment of
independent auditors

<u>No. of Votes For</u>	<u>No. of Votes Against</u>	<u>Abstention</u>
21,735,560	6,500	6,168

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.

10.21* Promissory Note and Stock Pledge Agreement dated as of April 15, 2002 between AtheroGenics, Inc. and Mark P. Colonnese.

* Filed herewith.

(b) Reports on Form 8-K

None.

12

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: August 13, 2002

ATHEROGENICS, INC.

By: /s/MARK P. COLONNESE

MARK P. COLONNESE

Senior Vice President of Finance and Administration and
Chief Financial Officer (Principal Accounting and
Financial Officer)

13
