Synvista Therapeutics, Inc.
Form 10-K/A
October 16, 2007

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

FORM 10-K/A

Amendment No. 2

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

For the fiscal year ended December 31, 2006

or

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

For the transition period from _____ to _____

Commission file number 001-16043

SYNVISTA THERAPEUTICS, INC.
(Exact name of Registrant as specified in its charter)

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

221 W. Grand Avenue, Montvale, New Jersey 07645
(Address of principal executive offices)
(Zip Code)

(201) 934-5000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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, as amended, 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 o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates of the Registrant, based on the American Stock Exchange closing price of the common stock ($0.16 per share), as of June 30, 2006, was $11,033,138.

At September 28, 2007, 2,586,377 shares of the Registrant's common stock, par value $.01 per share, were outstanding.

Documents Incorporated By Reference

None.

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EXPLANATORY NOTE

Synvista Therapeutics, Inc. ("Synvista" or the "Company") is filing this Amendment No. 2 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, originally filed with the Securities and Exchange Commission on March 22, 2007, and amended on April 30, 2007, for the purpose of amending and supplementing certain information contained in Part II of the Annual Report on Form 10-K, as well as the audited consolidated financial statements and notes thereto. Part IV is also being amended to update the Exhibit Index and to add new certifications in accordance with Rule 13a - 14 under the Exchange Act.

Item 6. Selected Financial Data.

The following table sets forth financial data with respect to us as of and for the five years ended December 31, 2006. The selected financial data has been derived from our audited consolidated financial statements. The selected financial data below should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Item 7:

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in thousands, except per share data)				
Statements of Operations Data:					
Income:					
License fees and other income	$ 62	$ 100	$ 152	$ —	$ —
Expenses:					
Research and development	1896	9,074	10,147	9,930	14,992
In-process research and development	11,379	—	—	—	—
General and administrative	4,655	4,325	4,532	5,046	2,946
Total expenses	17,930	13,399	14,679	14,976	17,938
Net loss from operations	(17,868)	(13,299)	(14,527)	(14,976)	(17,938)
Investment income	188	358	182	179	410
Loss before income tax benefit	(17,680)	(12,941)	(14,345)	(14,797)	(17,528)
Income tax benefit	—	327	386	345	647
Net loss	(17,680)	(12,614)	(13,959)	(14,452)	(16,881)
Preferred stock dividends	2,653	4,486	4,135	3,791	3,485
Net loss applicable to common stockholders	$ (20,333)	$ (17,100)	$ (18,094)	$ (18,243)	$ (20,366)
Basic/diluted net loss per share applicable to common stockholders	$ (0.22)	$ (0.30)	$ (0.41)	$ (0.50)	$ (0.64)
Weighted average common shares used in computing basic/diluted net loss per share	91,434	57,639	44,349	36,190	31,793
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 1,479	$ 6,583	$ 11,176	$ 16,679	$ 17,439
Working capital	730	5,657	8,740	15,033	13,786
Total assets	2,305	7,134	11,642	17,255	18,099
Accumulated deficit	(243,146)	(222,813)	(205,713)	(187,619)	(169,376)
Total stockholders' equity	1,243	5,992	9,047	15,384	14,303

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a product-based biopharmaceutical company engaged in the development of small molecule drugs to treat and prevent cardiovascular disease and diabetes. We identified several promising product candidates that we believe

represent novel approaches to some of the largest pharmaceutical markets. We have advanced one of these products into Phase 2 clinical trials. By acquiring HaptoGuard in July 2006, we expanded our portfolio with another compound in Phase 2 clinical development for cardiovascular complications of diabetes.

One of our drug candidates, ALT-2074 has demonstrated potential efficacy in animal models of heart attack and in a 20-patient clinical trial in ulcerative colitis. Our goal is to develop ALT-2074 in acute coronary syndrome as a targeted drug for high risk diabetic patients. It is currently being evaluated for evidence of myocardial protection following angioplasty in high-risk diabetic patients. Alagebrium chloride or alagebrium (formerly ALT-711), is a product of our drug discovery and development program. Alagebrium has demonstrated potential efficacy in two clinical trials in heart failure, as well as in animal models of heart failure, nephropathy, hypertension and erectile dysfunction. It has been tested in approximately 1,000 patients in a number of Phase 1 and Phase 2 clinical trials. Our goal is to develop alagebrium in diastolic heart failure and nephropathy. These diseases represent a rapidly growing market of unmet need, particularly common among diabetic patients, and alagebrium has demonstrated relevant clinical activity in two Phase 2 clinical trials for heart failure. However, we have significantly curtailed all product development activities due to an absence of sufficient financial resources to continue its development. While our goal is to pursue the development of ALT-2074 and alagebrium in high potential cardiovascular indications, any continued development of alagebrium by us is contingent upon our entering into strategic collaboration agreements for this product candidate which, among other things, would be required to include funding for product development.

We expect to utilize cash and cash equivalents to fund our operating activities, including continued development of ALT-2074 and alagebrium. We have undertaken curtailment actions and have reduced cash expenses in the fiscal year ended 2006. These actions include evaluating clinical strategies before resuming clinical trials for alagebrium, increased selectivity in preclinical programs and reduced headcount. We have engaged third parties to assist in developing and identifying options designed to diversify our portfolio of product candidates and to enhance our ability to raise financing in the future. Potential transactions include the acquisition of technologies and product programs, licensing opportunities, the sale to or merger into another company, and debt and equity financing. If we are unable to secure additional financing on reasonable terms, unable to generate sufficient new sources of revenue through collaborative arrangements or if the level of cash and cash equivalents falls below anticipated levels, we will not have the ability to continue as a going concern beyond the second quarter of 2007.

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 $243,145,861 as of December 31, 2006, and expect to incur net losses, potentially greater than losses in prior years, for a number of years.

We have financed our operations through proceeds from public offerings of common stock, private placements of common and preferred equity securities, revenue from former 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 in prior years from the sale of a portion of our New Jersey State net operating loss carryforwards.

Our business is subject to significant risks including, but not limited to, (1) our ability to obtain sufficient additional funding in the near term, whether through a strategic collaboration agreement or otherwise, to allow us to resume the development of ALT-2074 and alagebrium and to continue operations, (2) our ability to continue enrollment in our clinical studies of ALT-2074 should we have adequate financial and other resources to do so, (3) the risks inherent in our research and development efforts, including clinical trials and the length, expense and uncertainty of the process of seeking regulatory approvals for our product candidates, (4) uncertainties associated with obtaining and enforcing our patents and with the patent rights of others, (5) uncertainties regarding government healthcare reforms and product pricing and reimbursement levels, (6) technological change and competition, (7) manufacturing uncertainties, and (8) dependence on collaborative partners and other third parties. Even if our product candidates appear promising at an early stage of development, they may not reach the market for numerous reasons. These reasons include the possibilities that the products will prove ineffective or unsafe during preclinical or clinical studies, will fail to receive necessary regulatory approvals, will be difficult to manufacture on a large scale, will be uneconomical to market or will be precluded from commercialization by proprietary rights of third parties. These risks and others are discussed under the heading “Item 1A - Risk Factors.”

Results of Operations

Years Ended December 2006, 2005 and 2004

Revenues

Total revenues for 2006, 2005 and 2004 were $62,000, $100,000 and $152,000, respectively. In 2006, other income included $50,000 received from a licensing agreement with Avon Products, Inc. In 2005, other income included $100,000 received from a licensing agreement with Avon Products, Inc. In 2004, other income included approximately $52,000 derived from the sale of fully depreciated laboratory equipment and supplies and a reimbursement of $100,000 for improvements made to our former facility in Ramsey, New Jersey. The increase in investment income in 2005 versus 2004 was attributed to an increase in short term interest rates, partially offset by lower investment balances.

Research and Development

Research and development expense consists of costs incurred in connection with developing and advancing our drug discovery technology and identifying and developing our product candidates. We charge all research and development expenses to operations as incurred.

Our research and development expense consists of:

• internal costs associated with research, preclinical and clinical activities;

• payments to third-party contract research organizations, investigative sites and consultants in connection with our preclinical and clinical development programs;

• costs associated with drug formulation and supply of drugs for clinical trials;

• personnel related expenses, including salaries, stock-based compensation, benefits and travel; and

• overhead expenses, including rent.

We currently have two lead products in clinical development. A Phase 2 clinical study for ALT-2074 was opened for enrollment in May 2006, but progress of enrollment has been slow due in part to ineffective study design, geopolitical problems in Israel and a delay in acquiring the necessary financing. As of December 31, 2006, we had suspended enrollment for the Phase 2 clinical trial of our second product candidate, alagebrium, in heart failure due to lack of funding, and we had no subjects under protocol in any clinical study of alagebrium.

On July 25, 2007, we completed a $25 million financing, which will enable us to resume our Phase 2 clinical trials. We have not been tracking our clinical development costs on a project by project basis because we only had one product in clinical development until June 2006 and were forced to curtail research activities due to lack of funding until July 2007. We plan to keep track of our clinical development costs on a project by project basis going forward and will provide applicable by project disclosures in our Annual Report on Form 10-K for the fiscal year ending December 31, 2007.

We do not know if we will be successful in developing our product candidates. While expenses associated with the development of our current clinical programs are expected to be substantial and to increase over time, we believe that accurately projecting total program-specific expenses through commercialization is not possible at this time due to the following factors: the timing and amount of these expenses will depend upon the costs associated with potential future

clinical trials of our product candidates, and the related expansion of our research and development organization, regulatory requirements, advancement of our preclinical programs and product manufacturing costs, many of which cannot be determined with accuracy at this time based on our stage of development. This is due to the numerous risks and uncertainties associated with the duration and cost of clinical trials, which vary significantly over the life of a project as a result of unanticipated events arising during clinical development, including those with respect to:

• the number of clinical sites included in the trial;

• the length of time required to enroll suitable subjects;

• the number of subjects that ultimately participate in the trials; and

• the efficacy and safety results of our clinical trials and the number of additional required clinical trials.

Our expenditures are subject to additional uncertainties, including the terms and timing of regulatory approvals and the expense of filing, prosecuting, defending or enforcing any patent claims or other intellectual property rights. In addition, we may obtain unexpected or unfavorable results from our clinical trials. We may elect at any time to discontinue, delay or modify clinical trials of some product candidates or focus on others. A change in the outcome of any of the foregoing variables in the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA or other regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate, or if we experience significant delays in any of our clinical trials, we would be required to expend significant additional financial resources and time on the completion of clinical development. Additionally, future commercial and regulatory factors beyond our control will evolve and therefore impact our clinical development programs and plans over time. Due to the risks and uncertainties described above, we cannot currently estimate when material net cash flows from significant projects may commence, if at all.

Operating Expenses

Total expenses, excluding in-process research and development of $11,379,000, decreased to $6,551,000 in 2006 from $13,399,000 in 2005 and from $14,679,000 in 2004, and consisted primarily of general and administrative expenses in 2006 and research and development expenses for the years 2005 and 2004. The $11,379,000 in-process research and development charge was a result of the merger with HaptoGuard. Research and development expenses were $1,896,000, $9,074,000, and $10,147,000 in 2006, 2005 and 2004, respectively. These expenses consisted primarily of third-party expenses associated with preclinical and clinical studies, manufacturing costs, including the development and preparation of clinical supplies, personnel and personnel-related expenses and an allocation of facility expense.

Research and development expenses, excluding in-process research and development, decreased to $1,896,000 in 2006 from $9,074,000 in 2005, a decrease of $7,178,000, or 79.1%. This was primarily related to decreased clinical trial costs and manufacturing expenses as a result of the discontinuation of the SPECTRA (Systolic Pressure Efficacy and Safety Trial of Alagebrium) trial, partially offset by additional preclinical toxicity testing. The 2006 results include $547,000 in personnel and personnel-related costs, $168,000 in clinical trial costs, $63,000 in preclinical expenses, $279,000 of manufacturing expenses related to on-going drug stability studies, drug destruction and storage, $396,000 in consulting expense, $251,000 in trial-related insurance and $159,000 in facility allocation.

Research and development expenses decreased to $9,074,000 in 2005 from $10,147,000 in 2004, a decrease of $1,073,000, or 10.6%. This was primarily related to decreased clinical trial costs and manufacturing expenses as a result of the discontinuation of the SPECTRA trial, partially offset by additional preclinical toxicity testing. The 2005 results include $3,796,000 in personnel and personnel-related costs, $2,199,000 in clinical trial costs primarily related to SPECTRA, $1,288,000 in preclinical expenses primarily associated with the additional toxicity testing, $579,000 of manufacturing expenses related to on-going drug stability studies, drug destruction and storage, $425,000 in consulting expenses, $396,000 in trial-related insurance and $351,000 in facility allocation.

General and administrative expenses were $4,655,000 in 2006, an increase from $4,325,000 in 2005 and an increase from $4,532,000 in 2004. The increase in 2006 is in large part a result of severance costs of $1,617,000, partially offset by a reduction of normal personnel costs of $706,000. The decrease in 2005 over 2004 includes a $397,000 reduction in business development and marketing that was incurred in early 2004 related to the start-up of SPECTRA, $284,000 in reduced personnel costs due to reduced headcount, and $123,000 in reduced patent expenses. This decrease was offset by $597,000 in additional corporate expenses related to Sarbanes-Oxley compliance and increased third-party consulting expenses.

At December 31, 2006, we had available federal net operating loss carryforwards of $168,536,821, which expire in various amounts from the years 2007 through 2026, and state net operating loss carryforwards of $53,824,491, which expire in the years 2007 through 2013. In addition, at December 31, 2006, we had federal research and development tax credit carryforwards of $6,717,647 and state research and development tax credit carryforwards of $1,683,419.

Investment Income

Investment income for 2006, 2005 and 2004 was $188,000, $358,000 and $182,000, respectively. Investment income was derived from interest earned on cash and cash equivalents and short-term investments. Investment income in 2006 was lower than that in 2005 due to lower investment balance, partially offset by higher interest rates. The increase in investment income in 2005 versus 2004 was attributed to an increase in short term interest rates, partially offset by lower investment balances.

Net Loss

We had net losses of $17,680,000, $12,614,000 and $13,959,000 in 2006, 2005 and 2004, respectively. Included in our net loss in 2006, 2005 and 2004 was the sale of $0, $4,077,000 and $3,456,000, respectively, of our state net operating loss carryforwards and $0, $0, and $123,000, respectively, of our state research and development tax credit carryforwards. The proceeds and tax benefit recognized from the sale of these carryforwards in 2006, 2005 and 2004 were $0, $327,000 and $386,000, respectively.

Included in the net loss applicable to common stockholders for 2006, 2005 and 2004 were preferred stock dividends of $2,653,000, $4,486,000 and $4,135,000, respectively.

Liquidity and Capital Resources

We had cash and cash equivalents at December 31, 2006, of $1,479,000 compared to $6,583,000 at December 31, 2005, a decrease of $5,104,000. Cash used in operating activities for the year ended December 31, 2006, totaled $7,438,000 and consisted primarily of research and development expenses, personnel and related costs, and facility expenses. Cash used in investing activities totaled $1,472,000 for the year ended December 31, 2006 and included $1,622,000 of acquisition costs, net of cash acquired, offset by a release of restricted cash of $150,000 required by our facility lease. Cash provided by financing activities for the year ended December 31, 2006 was $3,806,000 and arose from an April 2006 and September 2006 public offering of 20,430,733 shares of common stock at $0.25, and $0.15 per share, respectively, which provided net proceeds of $3,806,026.

In 2006, 2005 and 2004, we sold $0, $4,077,000 and $3,456,000, respectively, of our gross state net operating loss carryforwards and $0, $0 and $123,000, respectively, of our state research and development tax credit carryforwards under the State of New Jersey's Technology Business Tax Certificate Transfer Program. This 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. Due to the uncertainty at any time as to our ability to effectuate the sale of our available New Jersey state net operating losses, and since we have no control or influence over the tax certificate transfer program, the benefits are recorded once the agreement with the counterparty is signed and the sale is approved by the State of New Jersey. The proceeds from the sales in 2006, 2005 and 2004 were $0, $327,000 and $386,000, respectively, and such amounts were recorded as a tax benefit in the statements of operations. As of December 31, 2006, we had state net loss carryforwards and state research and development tax credit carryforwards available for sale of $53,824,491. We cannot be certain if we will be able to sell any or all of these carryforwards under the tax certificate transfer program.

In January 2007, we completed a private financing of senior convertible secured promissory notes (the "Notes") and warrants, which provided net proceeds of approximately $3,000,000. In connection with this financing, we issued

five-year warrants to purchase 25,734,453 shares of our common stock at $0.01 per share. Each Note accrues interest at a rate of 8% per annum and the principal and interest on the Note are due and payable, if not converted, on May 31,2007. The Notes will automatically be converted into any security that is issued by us to the Buyers and other potential investors in connection with a proposed private preferred stock and warrant financing of up to $20 million that is currently being negotiated. The closing of any such additional financing, which we anticipate will be done at a discount from the market price, will be subject to the satisfaction of various conditions, including stockholder approval. In addition, at the option of the Buyers, the Notes may be converted into any security that is sold by the Company in any other financing on or prior to May 31, 2007. If the Notes have not been repaid or converted prior to May 31, 2007, we will be obligated to repay the outstanding principal amount pus any accrued but unpaid interest as well as (i) an additional $1,000,000 and (ii) fifteen percent (15%) of any amount received from financing, sale or licensing transactions completed prior to June 30, 2008, subject to a cap of $2,000,000 in the aggregate. Finally, at the option of the Buyers, unless otherwise converted, the Notes may be converted into shares of our common stock, at a price equal to the closing price of our common stock on January 11, 2007. In connection with note and warrant financing, the Company anticipates recognizing a significant amount of non-cash, and potentially cash, interest expense in the first and second quarters of 2007.

If we are unsuccessful in our efforts to raise additional funds, we will not have the ability to continue as a going concern beyond the second quarter of 2007.

On January 24, 2007, we received a notice from the staff (the "Staff") of AMEX, that AMEX has accepted our plan to regain compliance with AMEX continued listing standards, and that our listing will be continued pursuant to an extension until April 9, 2008 (the "Extension Period").

We submitted a Plan of Compliance to AMEX on November 6, 2006, outlining our operational plan and strategic objectives, and amended our Plan of Compliance on January 3, 2007 and January 5, 2007. The Plan of Compliance was prepared in response to a letter received from AMEX on October 9, 2006, indicating we were below certain continued listing standards. These standards were (i) Section 1003(a)(i) of the AMEX Company Guide, as a result of the Company's shareholder's equity of less than $2,000,000 and losses from continuing operations and/or net losses in two out of its three most recent fiscal years; (ii) Section 1003(a)(ii) of the AMEX Company Guide, as a result of the Company's shareholder's equity of less than $4,000,000 and losses from continuing operations and/or net losses in three out of its four most recent fiscal years; and (iii) Section 1003(a)(iii) of the AMEX Company Guide, as a result of the Company's shareholder's equity of less than $6,000,000 and losses from continuing operations and/or net losses in its five most recent fiscal years. To date, we have not regained compliance with such continued listing standards, but we are working towards achieving that goal consistent with our Plan of Compliance.

We will be subject to periodic review by the Staff during the Extension Period, and is required to provide the Staff with periodic updates in connection with the Plan of Compliance. Failure to make progress consistent with the Plan of Compliance or to regain compliance with the continued listing standards by the end of the Extension Period could result in the Company being delisted from AMEX.

We do not have any approved products and currently derive cash from sales of our securities, sales of our New Jersey state net operating loss carryforwards and interest on cash and cash equivalents. We are highly susceptible to conditions in the global financial markets and in the pharmaceutical industry. Positive and negative movement in those markets will continue to pose opportunities and challenges to us. Previous downturns in the market valuations of biotechnology companies and of the equity markets more generally have restricted our ability to raise additional capital on favorable terms.

We expect to utilize cash and cash equivalents to fund our operating activities, including continued development of ALT-2074 and alagebrium. However, as a result of the discontinuation of the Phase 2b SPECTRA trial in systolic hypertension and a decrease in our financial resources, we have significantly curtailed all product development activities of alagebrium and have reduced expenses for the year ended December 31, 2006. While we intend to pursue development of ALT-2074 and alagebrium, any continued development of alagebrium by us is contingent upon our entering into strategic collaboration agreements for this product candidate which, among other things, would be required to include funding for product development. We may not be able to enter into a strategic collaboration agreement with respect to ALT-2074 or alagebrium on reasonable terms, or at all. No enrollment or other activity is taking place with respect to any of our Phase 2 trials of alagebrium pending the resolution of our financial resource issues. If we are unable to secure additional financing on reasonable terms, unable to generate sufficient new sources of revenue through collaborative arrangements or if the level of cash and cash equivalents falls below anticipated levels, we will not have the ability to continue as a going concern beyond the second quarter of 2007.

The amount and timing of our future capital requirements will depend on numerous factors, including the timing of resuming our research and development programs, if at all, the number and characteristics of product candidates that we pursue, the conduct of preclinical tests and clinical studies, the status and timelines of regulatory submissions, the costs associated with protecting patents and other proprietary rights, the ability to complete strategic collaborations and the availability of third-party funding, if any.

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Selling securities to satisfy our capital requirements 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. There can be no assurances that such funding will be available at all or on terms acceptable to us. We have significantly curtailed our research and development programs, until additional financing is obtained, if ever. If funds are obtained through arrangements with collaborative partners or others, we may be required to relinquish rights to our technologies or product candidates and alter our plans for the development of our product candidates. If we are unable to obtain the necessary funding, we may be forced to cease operations. There can be no assurance that the products or technologies acquired in the merger will result in revenues to the combined company or any meaningful return on investment to our stockholders.

Commitments

The table below presents our contractual obligations as of December 31, 2006:

		Payments Due by Period			
	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Obligations:					
Employment agreements [1]	$ 382,694	$ 382,694	$ —	$ —	$ —
Operating lease commitments	293,421	85,581	195,614	12,226	—
Total contractual obligations	$ 676,115	$ 468,275	$ 195,614	$ 12,226	$ —

(1) We have employment agreements with key executives, which provide that either party may terminate the agreement upon written notice. If we terminate all of the agreements without cause, we are subject to a salary continuation obligation totaling $382,694.

Critical Accounting Policies

In December 2001, the SEC issued a statement concerning certain views of the SEC regarding the appropriate amount of disclosure by publicly held companies with respect to their critical accounting policies. In particular, the SEC 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 our filings with the SEC, including, without limitation, this Annual Report on Form 10-K and accompanying audited consolidated 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.

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share-Based Payment,” (“SFAS 123R”), which replaces “Accounting for Stock-Based Compensation,” (“SFAS 123”) and supersedes Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees.” SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first annual reporting period that begins after December 15, 2005. Under SFAS 123R, the pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition.

We account for employee stock-based compensation, awards issued to non-employee directors, and stock options issued to consultants and contractors in accordance with SFAS 123R, SFAS No. 148 “Accounting for Stock-Based Compensation—Transition and Disclosure” and Emerging Issues Task Force Issue No. 96-18, “Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services.”

For the year ended December 31, 2006, we recognized research and development consulting expenses of $5,122.

We have adopted the new standard, SFAS 123R, effective January 1, 2006 and have selected the Black-Scholes method of valuation for share-based compensation. We have adopted the modified prospective transition method which requires that compensation cost be recorded, as earned, for all unvested stock options and restricted stock outstanding at the beginning of the first quarter of adoption of SFAS 123R, and is recognized over the remaining service period after the adoption date based on the options' original estimate of fair value. For the year ended December 31, 2006, we recognized share-based employee compensation cost of $66,745. in accordance with SFAS 123R, which was recorded as general and administrative expenses.

On December 15, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of the vesting date of all previously issued, outstanding and unvested options, effective December 31, 2005. Approximately 1.47 million options were accelerated, of which 1.3 million belong to executive officers and non-employee members of the Board of Directors. As such there was no compensation recognized under Statement 123(R) related to options granted prior to January 1, 2006.

Prior to adoption of SFAS 123R, we applied the intrinsic-value method under 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. SFAS 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123, we elected to continue to apply the intrinsic-value based method of accounting described above, and adopted only the disclosure requirements of SFAS 123, as amended, which were similar in most respects to SFAS 123R.

Revenue Recognition

Our revenue recognition policy is consistent with the criteria set forth in Staff Accounting Bulletin 104 - Revenue Recognition in Financial Statements (SAB 104) for determining when revenue is realized or realizable and earned. In accordance with the requirements of SAB 104, the Company recognizes revenue when (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the seller's price is fixed or determinable; and (4) collectibility is reasonably assured.

Due to the immaterial nature of our current licensing revenues under the Avon Products, Inc. license agreement, we recognize revenues from non-refundable, up-front license fees as received which approximates the straight-line basis. The Company has no further obligations under this agreement.

Recently Issued Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, or FIN 48, *"Accounting for Uncertainty in Income Taxes,"* which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The provisions of FIN 48 will be effective for us beginning January 1, 2007. We are in the process of determining the effect, if any, the adoption of FIN 48 will have on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, or SFAS 157, *"Fair Value Measurements."* SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 will be effective for us beginning January 1, 2007. We are in the process of determining the effect, if any, the adoption of SFAS 157 will have on our financial statements.

In December 2006, the FASB issued FSP EITF 00-19-2, "Accounting for Registration Payment Arrangements." This FASB Staff Position ("FSP") addresses an issuer's accounting for registration payment arrangements. This FSP specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, *Accounting for Contingencies*. The guidance in this FSP amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* and FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* to include scope

exceptions for registration payment arrangements. This FSP further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles ("GAAP") without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. This provisions of EITF 00-19-2 will be effective for us beginning January 1, 2007. We are in the process of determining the effect, if any, the adoption of EITF 00-19-2 will have on our financial statements.

Item 8. Financial Statements and Supplementary Data.

(a) The consolidated financial statements required to be filed pursuant to this Item 8 are appended to this Amendment No. 2 to Annual Report on Form 10-K/A. A list of the consolidated financial statements filed herewith is found at "Index to Consolidated Financial Statements" on page 12.

(b) The unaudited quarterly financial data for the two-year period ended December 31, 2006 is as follows:

	Income	Expenses	Loss Before Income Tax Benefit	Net Loss Applicable to Common Stockholders	Basic/Diluted Loss Per Share
	(in thousands, except per share amounts)				
2006					
First Quarter	$ 0	$ 1,682	$ (1,621)	$ (2,796)	$ (0.05)
Second Quarter	50	1,159	(1,043)	(2,237)	(0.03)
Third Quarter	0	14,115	(14,076)	(14,360)	(0.13)
Fourth Quarter	12	974	(940)	(940)	(0.01)
Total Year	$ 62	$ 17,930	$ (17,680)	$ (20,333)	$ (0.22)
2005					
First Quarter	$ 0	$ 4,741	$ (4,642)	$ (5,714)	$ (0.10)
Second Quarter	100	3,577	(3,376)	(4,482)	(0.08)
Third Quarter	0	3,043	(2,957)	(4,098)	(0.07)
Fourth Quarter	0	2,038	(1,966)	(2,806)	(0.05)
Total Year	$ 100	$ 13,399	$ (12,941)	$ (17,100)	$ (0.30)

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Consolidated Financial Statements.

Our audited consolidated financial statements and the Report of Independent Registered Public Accounting Firm are filed with this Report.

(b) Exhibits.

The exhibits required to be filed are listed on the “Exhibit Index” attached hereto, which is incorporated herein by reference.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm - J.H. Cohn LLP	13
Consolidated Financial Statements:	
Consolidated Balance Sheets at December 31, 2006 and 2005	14
Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004	15
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Alteon Inc.

We have audited the accompanying consolidated balance sheets of Alteon Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alteon Inc. and subsidiaries as of December 31, 2006 and 2005, and their results of operations and cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company incurred a net loss of $17,679,737 and used $7,438,275 of cash in operating activities during the year ended December 31, 2006. These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ J.H. Cohn LLP

Roseland, New Jersey
February 15, 2007

ALTEON INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,478,780	$ 6,582,958
Other current assets	314,156	216,290
Total current assets	1,792,936	6,799,248
Property and equipment, net	10,500	55,154
Restricted cash	-	150,000
Other assets	501,889	129,195
Total assets	$ 2,305,325	$ 7,133,597
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable.	$ 809,492	$ 351,232
Accrued expenses	253,022	790,705
Total current liabilities.	1,062,514	1,141,937
Stockholders' Equity:		
Preferred stock, $.01 par value; 1,993,329 shares authorized, 0 shares issued and outstanding at December 31, 2006 and 1,389 shares of Series G Preferred Stock, and 4,172 shares of of Series H Preferred Stock issued and outstanding at December 31, 2005	-	56
Common stock, $.01 par value; 300,000,000 shares authorized and 129,318,858 and 57,996,711 shares issued and outstanding, as of December 31, 2006 and December 31, 2005	1,293,189	579,967
Additional paid-in capital	243,095,483	228,225,082
Accumulated deficit	(243,145,861)	(222,813,445)
Total stockholders' equity	1,242,811	5,991,660
Total liabilities and stockholders' equity	$ 2,305,325	$ 7,133,597

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

ALTEON INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2006	**2005**	**2004**
Revenues:			
License fees and other income	$ 62,069	$ 100,000	$ 151,821
Expenses:			
Research and development	1,896,204	9,074,244	10,147,298
In-process research and development	11,379,348	-	-
General and administrative	4,654,689	4,325,225	4,531,953
Total expenses	17,930,241	13,399,469	14,679,251
Net loss from operations	(17,868,172)	(13,299,469)	(14,527,430)
Investment income	188,435	358,446	182,574
Loss before income tax benefit	(17,679,737)	(12,941,023)	