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ATLANTIC TECHNOLOGY VENTURES INC
Form 10QSB
November 07, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

/X/ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended SEPTEMBER 30, 2002

// 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 0-27282

ATLANTIC TECHNOLOGY VENTURES, INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

36-3898269

(I.R.S. Employer Identification No.)

350 FIFTH AVENUE, SUITE 5507, NEW YORK, NEW YORK 10118

(Address of principal executive offices)

(212) 267-2503

(Issuer's telephone number)

150 BROADWAY, SUITE 1110, NEW YORK, NEW YORK 10038

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Number of shares of common stock outstanding as of November 7, 2002: 16,989,596

Transitional Small Business Disclosure Format (check one): Yes No X

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATLANTIC TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES
(A Development Stage Company)

Consolidated Balance Sheets
(Unaudited)

| | ASSETS | SEPTEMBER 30, 2002 |
|---------------------------|--------|-----------------------|
| | | ----- |
| Current assets: | | |
| Cash and cash equivalents | | \$ 375,845 |

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| | |
|---|--------------|
| Prepaid expenses | 81,614 |
| | ----- |
| Total current assets | 457,459 |
| Property and equipment, net | 70,237 |
| Other assets | 19,938 |
| | ----- |
| Total assets | \$ 547,634 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 503,945 |
| Stockholders' equity: | |
| Preferred stock, \$.001 par value. Authorized 10,000,000 shares; 1,375,000 shares designated as Series A convertible preferred stock | -- |
| Series A convertible preferred stock, \$.001 par value. Authorized 1,375,000 shares; 379,152 and 346,357 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively (liquidation preference aggregating \$4,928,976 and \$4,502,641 at September 30, 2002 and December 31, 2001, respectively) | 379 |
| Convertible preferred stock warrants, 112,896 issued and outstanding at September 30, 2002 and December 31, 2001 | 520,263 |
| Common stock, \$.001 par value. Authorized 50,000,000 shares; 16,989,596 and 15,965,359 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively | 16,990 |
| Common stock subscribed. 182 shares at September 30, 2002 and December 31, 2001 | -- |
| Additional paid-in capital | 27,411,259 |
| Deficit accumulated during development stage | (27,904,660) |
| | ----- |
| | 44,231 |
| Less common stock subscriptions receivable | (218) |
| Less treasury stock, at cost | (324) |
| | ----- |
| Total stockholders' equity | 43,689 |
| | ----- |
| Total liabilities and stockholders' equity | \$ 547,634 |
| | ===== |

See accompanying notes to unaudited consolidated financial statements.

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| | THREE MONTHS ENDED SEPTEMBER 30, | | NI |
|--|-------------------------------------|--------------|-------------|
| | 2002 | 2001 | |
| Revenues: | | | |
| Development revenue | \$ -- | \$ -- | \$ -- |
| License revenue | -- | -- | 500,0 |
| Grant revenue | -- | -- | -- |
| Total revenues | -- | -- | 500,0 |
| Costs and expenses: | | | |
| Cost of development revenue | -- | -- | -- |
| Research and development | 125,376 | 172,257 | 467,1 |
| Acquired in-process research and development | -- | -- | -- |
| General and administrative | 462,864 | 496,294 | 1,225,2 |
| Compensation expense (benefit) relating to stock warrants (general and administrative), net | -- | 35,968 | (5,8 |
| License fees | -- | -- | -- |
| Total operating expenses | 588,240 | 704,519 | 1,686,5 |
| Operating loss | (588,240) | (704,519) | (1,186,5 |
| Other (income) expense: | | | |
| Interest and other income | (1,826) | (6,266) | (10,2 |
| Gain on sale of Optex assets | -- | -- | -- |
| Loss on sale of Gemini assets | -- | -- | -- |
| Interest expense | -- | -- | -- |
| Equity in loss of affiliate | -- | 37,309 | -- |
| Distribution to minority shareholders | -- | -- | -- |
| Total other (income) expense | (1,826) | 31,043 | (10,2 |
| Net loss | \$ (586,414) | \$ (735,562) | \$ (1,176,2 |
| Imputed convertible preferred stock dividend | -- | -- | -- |
| Dividend paid upon repurchase of Series B | -- | -- | -- |
| Preferred stock dividend issued in preferred shares | 26,598 | 43,305 | 65,7 |
| Net loss applicable to common shares | \$ (613,012) | \$ (778,867) | \$ (1,242,0 |
| Net loss per common share: | | | |
| Basic and diluted | \$ (0.04) | \$ (0.11) | (0. |
| Weighted average shares of common stock outstanding: | | | |
| Basic and diluted | 16,989,596 | 7,166,090 | 16,949,7 |

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See accompanying notes to unaudited consolidated financial statements.

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ATLANTIC TECHNOLOGY VENTURES, INC. AND SUBSIDIARIES (A Development Stage Company)

Consolidated Statements of Cash Flows (Unaudited)

| | | NINE MONTHS ENDED SEPT |
|--|----|------------------------|
| | | 2002 |
| | | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ | (1,176,254) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Acquired in-process research and development Expense relating to issuance of common stock and warrants | | -- 13,500 |
| Expense relating to the issuance of options | | -- |
| Expense related to Channel merger | | -- |
| Change in equity of affiliate | | -- |
| Compensation expense (benefit) relating to stock options and warrants | | (5,845) |
| Discount on notes payable - bridge financing | | -- |
| Depreciation | | 37,113 |
| Gain on sale of Optex assets | | -- |
| Distribution to Optex minority shareholders | | -- |
| Loss on sale of Gemini assets | | -- |
| Loss on disposal of furniture and equipment | | 493 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | | -- |
| Increase in prepaid expenses | | (43,021) |
| Decrease in deferred revenue | | -- |
| Decrease in accrued expenses | | (4,668) |
| Increase (decrease) in accrued interest | | -- |
| Decrease (increase) in other assets | | 2,900 |
| | | ----- |
| Net cash used in operating activities | | (1,175,782) |
| | | ----- |
| Cash flows from investing activities: | | |
| Purchase of furniture and equipment | | (2,690) |
| Investment in affiliate | | -- |
| Proceeds from sale of Optex assets | | -- |
| Proceeds from sale of furniture and equipment | | -- |
| | | ----- |
| Net cash provided by (used in) investing activities | | (2,690) |
| | | ----- |
| Cash flows from financing activities: | | |
| Proceeds from exercise of warrants | | -- |
| Proceeds from exercise of stock options | | -- |
| Proceeds from issuance of demand notes payable | | -- |

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| | | |
|--|-------------|-------|
| Repayment of demand notes payable | -- | |
| Proceeds from the issuance of notes payable - bridge financing | -- | |
| Proceeds from issuance of warrants | -- | |
| Repayment of notes payable - bridge financing | -- | |
| Repurchase of common stock | -- | |
| Preferred stock dividend paid | (807) | |
| Net proceeds from the issuance of common stock | (36,637) | |
| Proceeds from issuance of convertible preferred stock | -- | |
| Repurchase of convertible preferred stock | -- | |
| Distribution to Optex minority shareholders | -- | |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | (37,444) | |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (1,215,916) | |
| Cash and cash equivalents at beginning of period | 1,591,761 | |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 375,845 | |
| | ===== | ===== |
| Supplemental disclosure of noncash financing activities: | | |
| Issuance of common stock in exchange for common stock subscriptions | \$ -- | |
| Conversion of demand notes payable and the related accrued interest to common stock | -- | |
| Cashless exercise of preferred warrants | -- | |
| Conversion of preferred to common stock | 40 | |
| Preferred stock dividend issued in shares | 65,760 | |
| | ===== | ===== |

See accompanying notes to unaudited consolidated financial statements.

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ATLANTIC TECHNOLOGY VENTURES, INC. and SUBSIDIARIES (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) September 30, 2002

(1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, the financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for fair presentation. Interim operating results are not necessarily indicative of results that may be expected for the year ending December 31, 2002 or for any subsequent period. These consolidated financial statements should be read in conjunction with the Annual Report on Form 10-KSB, as amended, of Atlantic Technology Ventures, Inc. and its subsidiaries ("Atlantic") as of and for the year ended December 31, 2001.

(2) LIQUIDITY

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Atlantic has reported net losses of \$1,734,945, \$5,802,478, and \$2,446,515 for the years ended December 31, 2001, 2000 and 1999, respectively. Atlantic has reported a net loss of \$1,176,254 for the nine months ended September 30, 2002. The net loss from date of inception, July 13, 1993, to September 30, 2002 amounts to \$27,503,776. Also, Atlantic has \$375,845 in cash and cash equivalents as of September 30, 2002. Atlantic's cash reserves are primarily the result of Atlantic's receipt of a licensing fee of \$500,000 in July 2002 resulting from Atlantic's licensing the exclusive worldwide rights to the CT-3 compound to Indevus Pharmaceuticals, Inc. Aside from this, Atlantic currently has no revenue-generating activities which continues to increase Atlantic's working capital deficit. Atlantic anticipates that its current resources will be sufficient to fund for approximately the next two months its currently anticipated needs for operating and capital expenditures. Atlantic plans to achieve this by deferring payments on currently outstanding obligations to certain service providers. Atlantic expects that its average monthly cash outlay will be approximately \$130,000. Atlantic does not currently have any committed sources of financing, and due to the trading price of its common stock it is not currently able to access funding under its agreement with Fusion Capital Fund II, LLC. These factors raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts or classification of liabilities which might result from the outcome of this uncertainty.

Atlantic's continued operations will depend on its ability to raise additional funds through various potential sources such as equity and debt financing, collaborative agreements, strategic alliances and its ability to realize the full potential of its technology in development. As stated above, in June 2002, Atlantic licensed the rights to the CT-3 compound to Indevus Pharmaceuticals, Inc. in exchange for, among other things, a licensing fee of \$500,000. During December 2001, Atlantic received net proceeds of approximately \$1,848,000 from the private placement of securities with various individual investors and \$100,000 from Fusion Capital. During the nine months ended September 30, 2002, Fusion also purchased 10,000 shares of Atlantic common stock for \$1,667. Additional funds are currently not available on acceptable terms and may not become available, and there can be no assurance that any additional funding that Atlantic does obtain will be sufficient to meet Atlantic's needs in the short and long term. To date, a significant portion of Atlantic's financing has been through private placements of common stock and warrants, the issuance of common stock for stock options and warrants exercised, debt financing and the licensing of its technologies. Until Atlantic's operations generate significant revenues, Atlantic will continue to fund operations from cash on hand and through the sources of capital previously described.

Atlantic's common stock was delisted from the Nasdaq SmallCap Market effective at the close of business August 23, 2001 for failing to meet the minimum-bid-price requirements set forth in the NASD Marketplace Rules. As of August 23, 2001, Atlantic's common stock trades on the Over-the-Counter Bulletin Board under the symbol "ATLC.OB". Delisting of Atlantic's common stock from Nasdaq could have a material adverse effect on its ability to raise additional capital, its stockholders' liquidity and the price of its common stock.

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(3) COMPUTATION OF NET LOSS PER COMMON SHARE

Basic net loss per common share is calculated by dividing net loss applicable to common shares by the weighted-average number of common shares outstanding for the period plus contingently issuable shares for little or no

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consideration. Diluted net loss per common share equals basic net loss per common share, since common stock equivalents from stock options, stock warrants, stock subscriptions and convertible preferred stock would have an anti dilutive effect because Atlantic incurred a net loss during each period presented. The common stock equivalents from stock options, stock warrants, stock subscriptions, and convertible preferred stock which have not been included in the diluted calculations since their effect is antidilutive were 17,705,984 and 3,929,352 for the nine months ended September 30, 2002 and 2001 respectively.

(4) INCOME TAXES

Atlantic incurred a net loss for the nine months ended September 30, 2002 and 2001. In addition, Atlantic does not expect to generate book income for the year ended December 31, 2002. Therefore, no income taxes have been reflected for the three- and nine-month periods ended September 30, 2002 and 2001.

(5) PREFERRED STOCK DIVIDEND

On February 7, 2002 and August 15, 2002, Atlantic's board of directors declared a payment-in-kind dividend of 0.065 of a share of Series A convertible preferred stock for each share of Series A convertible preferred stock held as of a specified record date. The estimated fair value of these dividends of \$26,598 and \$65,760 was included in Atlantic's calculation of net loss per common share for the three- and nine-month periods ended September 30, 2002, respectively. The equivalent dividends for the three- and nine-month periods ended September 30, 2001 had an estimated fair value of \$43,305 and \$107,449, respectively and are recorded in the same manner.

(6) ISSUANCE OF STOCK, STOCK OPTIONS AND WARRANTS

On March 8, 2001, Atlantic entered into an agreement with The Investor Relations Group, Inc. ("IRG") under which IRG provided Atlantic investor relations services. Pursuant to this agreement, Atlantic issued to Dian Griesel, the principal of IRG, warrants to purchase 120,000 shares of its common stock at an exercise price of \$0.875 per share and agreed to pay IRG \$7,500 per month. These warrants vested monthly in 5,000 share increments over a 24-month period. As part of its effort to reduce expenses, Atlantic concluded the agreement with IRG as of May 31, 2002 and therefore, the 45,000 unvested warrants have terminated. In addition, in lieu of paying \$15,000 for services rendered in April and May 2002, IRG agreed to accept 75,000 common shares. The estimated fair value of these shares of \$13,500 was recorded as a general and administrative expense during the nine months ended September 30, 2002. In addition, pursuant to EITF 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," Atlantic recorded compensation expense of \$34,666 for the nine-month period ended September 30, 2001 relating to the original issuance of the stock warrants to purchase 120,000 shares. As a result of a decline in Atlantic's common stock price during the nine-month period ended September 30, 2002 and the termination of 45,000 warrants, the cumulative expense associated with these warrants was reduced. The reduction in the estimated fair value of the warrants previously recorded and the current period expense resulted in a net reversal of compensation expense of \$5,845, which reversal is recorded as a benefit during the nine-month period ended September 30, 2002.

Compensation for these warrants relates to investor relations services and represents a general and administrative expense (benefit).

During the nine months ended September 30, 2002, Atlantic granted employees an aggregate of 2,000,000 options outside of the Atlantic Pharmaceuticals, Inc. 1995 Stock Option Plan. Of these options, 475,000 options represent the annual issuance of stock options to Atlantic employees on terms

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similar to those of prior year. They vest 25% upon issuance and the remaining options vest in 25% increments on an annual basis. In addition, 950,000 of these options were issued as incentive options and will vest upon the earlier of the achievement of certain milestones by Atlantic or five years. The remaining 575,000 options were issued and fully vested in March 2002 as part of voluntary revisions to compensation arrangements with certain employees which principally resulted in the

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employees deferring a significant portion of their salary. This deferred salary is payable on the earlier of Atlantic's discretion, the employee's termination, and, in certain cases, at the conclusion of the employee's contracts and as such Atlantic continues to accrue for those salary costs. The 2,000,000 options were granted at the stock price on the day of issuance, and are exercisable for a period of ten years regardless of whether the grantee continues to be employed by Atlantic.

(7) REDEEMABLE SERIES B PREFERRED SHARES

As described further in Atlantic's Form 10-KSB for the year ended December 31, 2001, Atlantic entered into a convertible preferred stock and warrants purchase agreement (the "Purchase Agreement"), with BH Capital Investments, L.P. and Excalibur Limited Partnership (together, the "Investors"), for the issuance of Atlantic's Series B convertible preferred stock and warrants.

Pursuant to Atlantic's subsequent renegotiations with the Investors, the conversion price per share of the Series B preferred stock on any given day was amended to be the lower of (1) \$1.00 or (2) 90% of the average of the two lowest closing bid prices on the principal market of the common stock out of the fifteen trading days immediately prior to conversion. The change in conversion price upon the renegotiations on January 9, 2001 resulted in a difference between the conversion price of the Series B preferred stock and the market price of the common stock on the effective date of the renegotiation. This amount, estimated at \$600,000, was recorded as an imputed preferred-stock dividend within equity and is deducted from net loss to arrive at net loss applicable to common shares during the nine-month period ended September 30, 2001.

On January 19, 2001, 41,380 shares of Series B preferred stock were converted by the Investors into 236,422 shares of Atlantic's common stock. On March 9, 2001, Atlantic and the Investors entered into a second stock repurchase agreement pursuant to which Atlantic repurchased from the Investors, for an aggregate purchase price of \$617,067, all 165,518 shares of Atlantic's Series B preferred stock held by the Investors on March 9, 2001. The carrying amount of the 165,518 shares was equal to \$480,000; therefore the amount in excess of the carrying amount, plus the estimated fair value of the warrants retained by the Investors, which equals \$167,127, was recorded as a dividend upon repurchase of shares of Series B preferred stock and is deducted from net loss to arrive at net loss applicable to common shares.

(8) DEVELOPMENT REVENUE

In accordance with a now-terminated license and development agreement, Bausch & Lomb Surgical paid Atlantic's subsidiary, Optex Ophthalmologics, Inc. ("Optex"), for developing its Avantix (formerly known as Catarex) technology. For the nine months ended September 30, 2002, this agreement provided no development revenue and no related cost-of-development revenue as compared to

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\$2,461,922 of development revenue (including \$1,067,345 in project-completion bonuses paid out and recognized at the completion of the project in March 2001) and related cost-of-development revenue of \$2,082,568 for the nine months ended September 30, 2001. The decrease in revenues and related expenses from Bausch & Lomb over last year was due to the fact that there were no revenues and related expenses since termination of the agreement in March 2001. With termination of the above agreement at the conclusion of the sale of substantially all of Optex's assets (mostly intangible assets with no book value) in March 2001, as described in note 9 below, Atlantic no longer has the revenues or profits associated with that agreement.

(9) SALE OF OPTEX ASSETS

Pursuant to an asset purchase agreement dated January 31, 2001, among Bausch & Lomb Incorporated, a Bausch & Lomb affiliate, Atlantic, and Optex, on March 2, 2001, Optex sold to Bausch & Lomb substantially all of its assets (mostly intangible assets with no book value), including all those related to the Avantix (formerly known as Catarex) technology. The purchase price was \$3 million paid at closing (of which approximately \$564,000 has been distributed to Optex's minority shareholders). In addition, Optex is entitled to receive additional consideration, namely \$1 million once Bausch & Lomb receives regulatory approval to market the Avantix device in Japan, royalties on net sales on the terms stated in the original development agreement dated May 14, 1998, between Bausch & Lomb and Optex, as amended, and minimum royalties of \$90,000, \$350,000, and \$750,000 for the first, second, and third years, respectively, starting on first commercial use of the Avantix device or January 1, 2004,

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whichever is earlier. Optex also has the option to repurchase the acquired assets from Bausch & Lomb at fair value if it ceases developing the Avantix technology.

Upon the sale of Optex assets, Bausch & Lomb's development agreement with Optex was terminated and Optex has no further involvement with Bausch & Lomb. As a result of this transaction, Atlantic recorded a net gain on the sale of Optex assets of \$2,569,451 for the nine-month period ended September 30, 2001. This includes a net loss of \$240,000 for the quarter ended June 30, 2001, as described below. The purchase price of \$3,000,000 is nonrefundable and upon the closing of the asset purchase agreement in March 2001, Optex had no further obligation to Bausch & Lomb or with regard to the assets sold. In the asset purchase agreement, Optex agreed to forgo future contingent payments provided for in the earlier development agreement. Optex has recorded a profit distribution for the nine months ended September 30, 2001 of \$837,274, representing the minority shareholders' percentage of the cumulative profit from the Bausch & Lomb development and asset purchase agreements up to and including proceeds from the sale of Optex's assets. (This figure includes the \$564,000 referred to above.)

On May 9, 2001, Atlantic's board of directors, after considering all the relevant facts and circumstances and consulting counsel agreed to authorize an aggregate payment of \$240,000 to three former employees of Optex (who became employed by Bausch & Lomb). The payments were made on May 11, 2001, and represented the settlement of claims made by the employees subsequent to the asset purchase agreement referred to above for severance monies allegedly due under their employment agreement. Atlantic did not believe these monies were due pursuant to the terms of the transaction or the respective employment agreements. The board of directors elected to acquiesce to the demands of the former employees and resolve the matter in light of the

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potential future royalties from Bausch & Lomb and the importance of these individuals to the ongoing development activities. The payment was recorded as an expense netted against gain on the sale of Optex assets during the second quarter of 2001.

(10) PRIVATE PLACEMENT OF COMMON SHARES

On November 6, 2001, Atlantic entered into an agreement with Joseph Stevens & Company, Inc. in which Joseph Stevens agreed to act as placement agent for a private placement of shares of Atlantic's common stock. In that private placement, the price of each share of Atlantic's common stock was \$0.24 and the minimum and maximum subscription amounts were \$2,000,000 and \$3,000,000, respectively. In addition, each investor received a warrant to purchase one share of Atlantic's common stock for every share of Atlantic's common stock purchased by that investor. The warrants have an exercise price of \$0.29 and are exercisable for five years from the closing date. On December 3, 2001, Atlantic issued to certain investors an aggregate of 8,333,318 shares of common stock for the minimum subscription of \$2,000,000. In connection with the private placement, Atlantic paid Joseph Stevens a placement fee of \$140,000, equal to 7% of the aggregate subscription amount, a warrant to purchase 833,331 shares of Atlantic's common stock, which represented 10% of the number of shares issued to the investors and 833,331 shares of Atlantic common stock. The term of the warrant is five years and the per share exercise price is \$0.29. In conjunction with this private placement, Atlantic received net proceeds of approximately \$1,848,000 in December 2001.

(11) SERIES A ANTIDILUTION PROVISION

The conversion price and conversion rate of the Series A preferred stock is subject to adjustment upon the occurrence of certain events, including the issuance of common stock at a per-share price less than either the conversion price or the then market price. Recent issuances of stock, options and warrants, including in connection with Atlantic's private placement in 2001, have necessitated that Atlantic adjust the conversion rate and conversion price of the Series A preferred stock. Accordingly, the conversion price of the Series A preferred stock was decreased from \$3.058 to \$1.22, and the conversion rate has been increased from 3.27 to 8.21 to reflect all recent issuances of stock options and warrants through December 31, 2001. In connection with these changes, Atlantic issued 66,666 make-up shares of common stock to certain former Series A preferred stock holders which are included in the net loss per common share calculation for the nine months ended September 30, 2002. During the nine months ended September 30, 2002, the conversion rate was increased further to 8.22 as a result of the issuance of 75,000 shares to IRG and 10,000 shares to Fusion Capital.

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(12) LICENSING OF CT-3 TO INDEVUS PHARMACEUTICALS, INC.

On June 28, 2002, Atlantic entered into a license agreement with Indevus Pharmaceuticals, Inc. in which Atlantic licensed to Indevus the exclusive worldwide rights to CT-3, its novel anti-inflammatory and analgesic compound currently in clinical development. Indevus will be responsible for all further development of CT-3, and Atlantic will have no future involvement with Indevus or CT-3 other than its rights under the license agreement to royalties and milestone payments. Under the license agreement, Atlantic received an initial licensing fee of \$500,000. In accordance with SAB No. 101, "Revenue Recognition," Atlantic recognized \$500,000 of licensing revenue during the nine months ended September 30, 2002, since it has no further obligations under the

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license agreement. Atlantic is entitled to additional milestone payments on occurrence of certain events specified in the license agreement, including commencement and completion of various clinical trials, the FDA's acceptance for filing of a New Drug Application, or "NDA," and Indevus securing other regulatory approvals for CT-3 in the United States and Europe, and Atlantic will be entitled to royalties once the compound begins to generate revenue.

(13) LICENSING OF ANTIMICROBIAL AGENT ATV-02

Atlantic has licensed from its inventors the worldwide rights to ATV-02, a potent and broad-spectrum antimicrobial agent for the local treatment of topical infections. This compound is more commonly known as N-Chlorotaurine, or "NCT." This compound has completed safety and tolerability studies in a limited number of subjects and has begun a series of Phase II human clinical studies for the treatment of several indications, including viral and bacterial conjunctivitis and acute and chronic sinusitis.

Under the terms of the license agreement, Atlantic has exclusively licensed the inventors' rights (including the right to sublicense) pertaining to any novel therapeutic use or formulation of the compound. Atlantic has no clinical-development obligations under the license agreement, but it plans to continue developing ATV-02 in Europe in cooperation with the inventors using their philanthropic funding sources and plans to file an IND in the United States to develop the compound according to FDA regulations for approval in the United States. Atlantic was not required to pay a license fee under the license agreement, but if Atlantic proceeds with clinical development of the compound it would be required to make payments to the investors upon achieving certain milestones. Such payments would be payable in cash or company stock, at Atlantic's discretion. The milestone payments as set forth in the license agreement include (a) \$100,000 upon the first new patent issuance, (b) \$250,000 upon successful completion of a Phase III clinical trial, and (c) \$1,000,000 upon receiving new drug approval. Atlantic would also be required to pay the inventors a total royalty of 4% of the net sales of the licensed products sold by Atlantic and 20% of the royalties which Atlantic receives from sublicensees. Atlantic is responsible for preparing, filing, prosecuting, and maintaining the patent applications and patent rights.

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

YOU SHOULD READ THE FOLLOWING DISCUSSION OF OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION IN CONJUNCTION WITH OUR ANNUAL REPORT ON FORM 10-KSB, AS AMENDED FOR THE YEAR ENDED DECEMBER 31, 2001. THIS DISCUSSION INCLUDES "FORWARD-LOOKING" STATEMENTS THAT REFLECT OUR CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND FINANCIAL PERFORMANCE. WE USE WORDS SUCH AS WE "EXPECT," "ANTICIPATE," "BELIEVE," AND "INTEND" AND SIMILAR EXPRESSIONS TO IDENTIFY FORWARD-LOOKING STATEMENTS. INVESTORS SHOULD BE AWARE THAT ACTUAL RESULTS MAY DIFFER MATERIALLY FROM OUR EXPRESSED EXPECTATIONS BECAUSE OF RISKS AND UNCERTAINTIES INHERENT IN FUTURE EVENTS, PARTICULARLY THOSE RISKS IDENTIFIED IN THE "RISK FACTORS" SECTION OF OUR MOST RECENT ANNUAL REPORT ON FORM 10-KSB, AND SHOULD NOT UNDULY RELY ON THESE FORWARD LOOKING STATEMENTS.

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RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2002 VS. 2001

During the three month periods ended September 30, 2002 and 2001, we had no revenue.

For the quarter ended September 30, 2002, research and development expense was \$125,376 as compared to \$172,257 for the third quarter of 2001. The decrease is primarily a result of a reduction in patent prosecution fees of \$44,000 resulting from the licensing of our drug CT-3 to Indevus Pharmaceuticals, Inc. in June of 2002.

For the quarter ended September 30, 2002, general and administrative expense was \$462,864 as compared to \$496,294 for the quarter ended September 30, 2001. The decrease is due primarily to a decrease in expenses associated with payroll and investor relations services of \$31,000 and \$40,000 respectively. In addition, in the third quarter of 2001, we had expenses associated with the issuance of 35,000 shares of our common stock to each of BH Capital Investments, L.P. and Excalibur Limited Partnership in August 2001 in return for their commitment to provide us with \$3.5 million of financing in connection with an asset purchase for which we had submitted a bid. We subsequently issued those shares, but we did not ultimately purchase those assets. Those shares had an estimated fair value of \$44,100 which was recorded as a general and administrative expense for the three months ended September 30, 2001. There was no similar expense in the quarter ended September 30, 2002. These reductions in expenses are offset by increases in expenses associated with tax preparation services, valuation services and legal services of \$32,000, \$37,000 and \$17,000 respectively.

For the quarter ended September 30, 2002, there was no compensation expense relating to stock warrants as compared to an expense relating to stock warrants of \$35,968 in the prior year. This expense was associated with warrants issued to Dian Griesel during March 2001 as partial compensation for investor relations services provided to us by The Investor Relations Group, Inc. ("IRG"). With the termination of the agreement with IRG as of May 31, 2002, there is no more vesting of warrants and as a result, we will not incur any additional compensation expense associated with the Dian Griesel warrants. Compensation expense relating to these investor relations services represents a general and administrative expense.

For the third quarter of 2002, interest and other income was \$1,826, compared to \$6,266 for the third quarter of 2001. The decrease in interest income is primarily due to the decline in our cash reserves.

Net loss applicable to common shares for the quarter ended September 30, 2002, was \$613,012 as compared to \$778,867 for the quarter ended September 30, 2001. This decrease in net loss applicable to common shares is attributable primarily to a reduction in research and development expenses of \$46,881 and a reduction in general and administrative expenses of \$33,430. As a result of the termination of the investor relations services agreement with IRG, we had a reduction in compensation expense relating to stock warrants of \$35,968. In the quarter ended September 30, 2001, net loss included our share of the losses of TeraComm Research, Inc. amounting to \$37,309. We had no such expense since September 30, 2001 since the value of the investment was written down to zero. We also issued preferred stock dividends on our Series A preferred stock for which the estimated fair value of \$26,598 and \$43,305 was included in the net loss applicable to common shares for the quarters ended September 30, 2002 and 2001, respectively. The decline in the estimated fair value of these dividends is primarily due to the decrease in our stock price.

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NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2002 VS. 2001

In the nine-month period ended September 30, 2002, Indevus Pharmaceuticals, Inc. paid us a \$500,000 license fee as part of the consideration for our having licensed to Indevus, under a license agreement effective June 28, 2002, exclusive worldwide rights to CT-3, our novel anti-inflammatory and analgesic compound currently in clinical development. Indevus will be responsible for all further development of CT-3, and we will have no future involvement with Indevus or CT-3 other than in connection with our rights to royalties and milestone payments under the license agreement. Those milestone payments are contingent on occurrence of certain events specified in the agreement, including commencement and completion of various clinical trials, the FDA's acceptance for filing of an NDA, and Indevus securing other regulatory approvals for CT-3 in the United States and Europe. In accordance with SAB No. 101, "Revenue Recognition," we recognized \$500,000 of licensing revenue during the nine months ended September 30, 2002, since we have no further obligations under the license agreement. We will record as additional revenue any additional payments we receive under the license agreement.

In accordance with a now-terminated license and development agreement, Bausch & Lomb Surgical paid our subsidiary, Optex Ophthalmologics, Inc. ("Optex"), for developing its Avantix (formerly known as Catarex) technology. For the nine months ended September 30, 2002, this agreement provided no development revenue and no related cost-of-development revenue as compared with \$2,461,922 of development revenue (including \$1,067,345 in project-completion bonuses paid out and recognized at the completion of the project in March 2001) and related cost-of-development revenue of \$2,082,568 for the nine months ended September 30, 2001. The decrease in revenues and related expenses from Bausch & Lomb over last year is due to the fact that there were no revenues and related expenses since termination of the agreement in March 2001.

For the nine months ended September 30, 2002, research and development expense was \$467,153 as compared to \$774,340 for the nine months ended September 30, 2001. The cessation of research and development activities on our antisense technology as a result of the sale of the assets of Gemini accounted for approximately \$159,000 of this decrease. In addition, research and development consulting expense decreased by approximately \$86,000 and research and development salaries decreased by approximately \$58,000 primarily as a result of the sale of substantially all of the assets of Gemini in May of 2001.

For the nine months ended September 30, 2002, general and administrative expense was \$1,225,201 as compared to \$2,333,567 for the nine months ended September 30, 2001. A significant portion of this decrease is a result of a finder's fee of \$120,000 and the \$444,000 estimated fair value of the 600,000 commitment shares we issued to Fusion Capital Fund II, LLC in conjunction with a common stock purchase agreement with Fusion Capital Fund II, LLC we entered into during 2001. Fusion's obligation to purchase our shares under this agreement is subject to certain conditions. A material contingency that affects our ability to raise funds under this agreement is our stock price. Currently, our stock price is below the floor price of \$0.68 specified in the Fusion agreement and as a result we are currently unable to draw funds pursuant to that agreement. As the Fusion agreement is currently structured, we cannot guarantee that we will be able to draw any funds. In addition, in the nine months ended September 30, 2001, we had expenses associated with the issuance of 35,000 shares of our common stock to each of BH Capital Investments, L.P. and Excalibur Limited Partnership in August 2001 in return for their commitment to provide us with \$3.5 million of financing in connection with an asset purchase for which we had submitted a bid. We subsequently issued those shares, but we

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did not ultimately purchase those assets. Those shares had an estimated fair value of \$44,100 which was recorded as a general and administrative expense for the nine months ended September 30, 2001. The decrease in general and administrative expenses was also due to reduced spending as a result of increased efforts to conserve cash as well as reduced levels of general and administrative activity. We had a decrease in payroll of approximately \$96,000 partially as a result of the sale of substantially all of the assets of Gemini in May of 2001, a decrease in legal expenses of approximately \$180,000, a decrease in investor relations services of about \$118,000, a decrease in due diligence fees and Nasdaq fees of approximately \$59,000 and a decrease in travel and conference expenses of approximately \$48,000.

For the nine months ended September 30, 2002, we had a reduction in previously recognized compensation expense relating to stock warrants of \$5,845 as compared to an expense relating to stock warrants of \$70,634 in the prior year. This expense was associated with warrants issued to Dian Griesel during March 2001 as partial compensation for investor relations services provided to us by IRG. The reduction of compensation expense associated with these warrants is due to the decrease in our stock price as compared to 2001 and the reversal of

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previously recorded expense associated with 45,000 unvested warrants which were terminated as of May 31, 2002. Compensation expense relating to these investor relations services represents a general and administrative expense. With the termination of the agreement with IRG there will be no more vesting of warrants and therefore we will not incur any additional compensation expense associated with the Dian Griesel warrants.

For the nine months ended September 30, 2002, interest and other income was \$10,255, compared to \$40,618 for the nine months ended September 30, 2001. The decrease in interest income is primarily due to the decline in our cash reserves.

Net loss applicable to common shares for the nine months ended September 30, 2002, was \$1,242,014 as compared to \$2,044,369 for the nine months ended September 30, 2001. This decrease in net loss applicable to common shares is attributable in part to the recognition of a gain on the sale of the assets of our subsidiary, Optex during the nine months ended September 30, 2001 in the amount of \$2,569,451, partially offset by a distribution to the minority shareholders of Optex of \$837,274. In addition, with the termination of our agreement with Bausch & Lomb, we no longer have available to us the revenue or profits associated with that agreement; as a result, we had no profit from this agreement for the nine months ended September 30, 2002 as compared with \$379,354 of profit for the same period in 2001. We recorded grant revenue of \$250,000 for the nine months ended September 30, 2001 that we did not have in nine months ended September 30, 2002. In the nine months ended September 30, 2001, we also recorded a loss of \$334,408 on sale of the assets of our subsidiary Gemini. Partially offsetting the decrease in net loss, we recognized \$500,000 of licensing revenue we recorded in connection with our licensing to Indevus exclusive worldwide rights to CT-3. The net loss applicable to common shares was further decreased by a reduction in research and development expenses and general and administrative expenses, including compensation expense relating to stock options and warrants of \$307,187 and \$1,184,845, respectively, for the nine months ended September 30, 2002 as compared with the nine months ended September 30, 2001.

Net loss applicable to common shares for the nine months ended September 30, 2001 also included a beneficial conversion on our Series B preferred stock in the amount of \$600,000 and a dividend of \$167,127 paid on our repurchase of the outstanding Series B preferred stock. We also issued

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preferred stock dividends on our Series A preferred stock, for which the estimated fair value of \$65,760 and \$107,449 was included in the net loss applicable to common shares for the nine months ended September 30, 2002 and 2001, respectively. The decrease in the estimated fair value of these dividends as compared to the prior year is primarily a reflection of a decline in our stock price.

LIQUIDITY AND CAPITAL RESOURCES

From inception to September 30, 2002, we incurred an accumulated deficit of \$27,904,660, and we expect to continue to incur additional losses through the year ending December 31, 2002 and for the foreseeable future. This loss has been incurred primarily through research and development activities related to the various technologies under our control.

Pursuant to an asset purchase agreement dated January 31, 2001, among Bausch & Lomb Incorporated, a Bausch & Lomb affiliate, Atlantic, and Optex, on March 2, 2001, Optex sold to Bausch & Lomb substantially all its assets (mostly intangible assets with no book value), including all those related to the Avantix (formerly known as Catarex) technology. As a result of this sale, Atlantic and Optex no longer have any obligations to Bausch & Lomb in connection with development of the Avantix technology. The purchase price was \$3 million paid at closing (approximately \$564,000 of which was distributed to minority shareholders). In addition, Optex is entitled to receive additional consideration, namely \$1 million once Bausch & Lomb receives regulatory approval to market the Avantix device in Japan, royalties on net sales on the terms stated in the original development agreement dated May 14, 1998, between Bausch & Lomb and Optex, as amended, and minimum royalties of \$90,000, \$350,000, and \$750,000 for the first, second, and third years, respectively, starting on first commercial use of the Avantix device or January 1, 2004, whichever is earlier. Optex also has the option to repurchase the acquired assets from Bausch & Lomb if it ceases developing the Avantix technology at fair value. Upon the sale of Optex assets, Bausch & Lomb's development agreement with Optex was terminated. In the asset purchase agreement, Optex agreed to forgo future contingent payments provided for in the earlier development agreement. As a result of this transaction, we recorded a gain on the sale of Optex assets of \$2,569,451. During the first nine months of 2001, we made a profit distribution of \$837,274 to Optex's minority

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shareholders, representing their share of the cumulative profit from the development agreement with Bausch & Lomb and the proceeds from the sale of Optex' assets. (This figure includes the \$564,000 referred to above.)

On November 6, 2001, we entered into an agreement with Joseph Stevens & Company, Inc. in which Joseph Stevens agreed to act as placement agent for a private placement of shares of our common stock. In that private placement, the price of each share of our common stock was \$0.24 and the minimum and maximum subscription amounts were \$2,000,000 and \$3,000,000, respectively. In addition, each investor received a warrant to purchase one share of our common stock for every share of our common stock purchased by that investor. The warrants have an exercise price of \$0.29 and are exercisable for five years from the closing date. On December 3, 2001, we issued to certain investors an aggregate of 8,333,318 shares of common stock for the minimum subscription of \$2,000,000. In connection with the private placement, we paid Joseph Stevens a placement fee of \$140,000, equal to 7% of the aggregate subscription amount, a warrant to purchase 833,331 shares of Atlantic's common stock, which represented 10% of the number of shares issued to the investors and 833,331 shares of our common stock. The term of this warrant is five years and the per share exercise price is

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\$0.29. In conjunction with this private placement, we received net proceeds of approximately \$1,848,000 in December 2001.

On June 28, 2002, we licensed to Indevus Pharmaceuticals, Inc. the exclusive worldwide rights to CT-3 in exchange for a \$500,000 licensing fee. Atlantic is also entitled to additional milestone payments on occurrence of certain events specified in the license agreement, including commencement and completion of various clinical trials, the FDA's acceptance for filing of a New Drug Application, or "NDA," and Indevus securing other regulatory approvals for CT-3 in the United States and Europe, and Atlantic will be entitled to royalties once the compound begins to generate revenue. Under the license agreement, Indevus is responsible for the clinical development, regulatory activities and commercializing this compound.

We have financed our operations since inception primarily through equity and debt financing, our now-terminated collaborative arrangement with Bausch & Lomb and our licensing of CT-3 to Indevus. During the three- and nine-month periods ended September 30, 2002, we had a net decrease in cash and cash equivalents of \$69,530 (including the receipt of the \$500,000 licensing fee from Indevus in July 2002) and \$1,215,916, respectively.

This decrease primarily resulted from net cash used in operating activities for the nine months ended September 30, 2002 of \$1,175,782. Total cash resources as of September 30, 2002 were \$375,845 compared to \$1,591,761 at December 31, 2001.

Our available working capital and capital requirements will depend upon numerous factors, including progress of our research and development programs, our progress in and the cost of ongoing and planned pre-clinical and clinical testing, the timing and cost of obtaining regulatory approvals, the cost of filing, prosecuting, defending, and enforcing patent claims and other intellectual property rights, competing technological and market developments, changes in our existing collaborative and licensing relationships, the resources that we devote to developing manufacturing and commercializing capabilities, technological advances, the status of our competitors, our ability to establish collaborative arrangements with other organizations and our need to purchase additional capital equipment.

Our current liabilities as of September 30, 2002 were \$503,945 compared to \$508,613 at December 31, 2001, a decrease of \$4,668. The decrease was primarily due to reduced spending due to an increased effort to conserve cash. As of September 30, 2002, our current liabilities exceeded our current assets and we had a working capital deficit of \$46,486. Atlantic currently has no revenue-generating activities which continues to increase Atlantic's working capital deficit.

Our continued operations will depend on whether we are able to raise additional funds through various potential sources, such as equity and debt financing, other collaborative agreements, strategic alliances, and our ability to realize the full potential of our technology in development. Such additional funds may not become available as we need them or be available on acceptable terms. To date, a significant portion of our financing has been through private placements of common and preferred stock and warrants, the issuance of common stock for stock options and warrants exercised, and debt financing. Until our operations generate significant revenues, we

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will continue to fund operations from cash on hand and through the similar sources of capital previously described. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs.

We anticipate that our current resources will be sufficient to fund for approximately the next two months our currently anticipated needs for operating and capital expenditures. We plan to achieve this by deferring payments on currently outstanding obligations to certain service providers. We expect that our average monthly outlay will be approximately \$130,000 per month (including approximately \$35,000 per month for research and preclinical development expenses and approximately \$95,000 for general and administrative expenses). Our major outstanding contractual obligations relate to our operating (facilities) leases. Our facilities lease expense in future years extends through May 2003 at an aggregate rate of approximately \$7,700 per month, net of monthly sublease income of \$750 per month which commenced March 2002.

The report of our independent auditors on our 2001 consolidated financial statements includes an explanatory paragraph that states that our recurring losses and our limited liquid resources raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Subsequent to an oral hearing before a Nasdaq Listing Qualifications Panel, on August 23, 2001, our securities were delisted from the Nasdaq Stock Market for failing to meet the minimum-bid-price requirements set forth in the NASD Marketplace Rules, as our common stock had traded for less than \$1.00 for more than 30 consecutive business days. Our common stock trades now on the OTC Bulletin Board under the symbol "ATLC.OB". Delisting our common stock from Nasdaq could have a material adverse effect on our ability to raise additional capital, our stockholders' liquidity and the price of our common stock.

CRITICAL ACCOUNTING POLICIES

In December 2001, the SEC requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our significant accounting policies are described in Note 1 to our consolidated financial statements included in our annual report filed on Form 10-KSB as amended for the year ended December 31, 2001, however, we believe that none of them are considered to be critical.

RESEARCH AND DEVELOPMENT ACTIVITIES

OPTEX AND THE AVANTIX(TM) (FORMERLY CATAREX(TM)) TECHNOLOGY

Our majority-owned (81.2%) subsidiary, Optex, is entitled to royalties and other revenues in connection with commercialization of the Catarex technology. Bausch & Lomb Incorporated, a multinational ophthalmics company, is developing this technology under the new trade name "Avantix" to overcome the limitations and deficiencies of traditional cataract-extraction techniques. Optex had been the owner of this technology and was developing it under a development agreement with Bausch & Lomb, but on March 2, 2001, Optex sold to Bausch & Lomb substantially all of its assets (mostly intangible assets with no book value), including those related to the Avantix technology, and delivered 2,400 "First-Generation" Avantix hand pieces to Bausch & Lomb for use in human

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feasibility studies and clinical trials.

Bausch & Lomb, which has committed over \$15 million on the project to date, has assumed full responsibility for developing and marketing the technology and will pay Optex royalties on sales of the device and the associated system. Under the agreement governing Bausch & Lomb's purchase of Optex's assets, Bausch & Lomb is required to meet certain development milestones. The next such milestone is completion by December 31, 2002, of a clinical study designed by Bausch & Lomb to assess the functionality of the Avantix hand piece in human cataract surgery. We continue to work closely with Bausch & Lomb to monitor their progress in developing this

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technology, and, to the extent permitted by our agreement with Bausch & Lomb, we will report achievement of any development milestones.

CT-3 ANTI-INFLAMMATORY/ANALGESIC COMPOUND

On June 28, 2002, we licensed exclusive worldwide rights of our proprietary compound CT-3 to Indevus Pharmaceuticals, Inc. CT-3 is a patented synthetic derivative of carboxylic tetrahydrocannabinol (THC-7C) and is an alternative to nonsteroidal anti-inflammatory drugs, or "NSAIDs," such as aspirin and ibuprofen. Over 130 million Americans suffer from chronic pain and 40 million suffer from arthritis. Worldwide prescription sales of analgesic/anti-inflammatory drugs exceeded \$9 billion in 1999. The overall field of inflammation and pain management is large and not fully satisfied, and a compound such as CT-3 may have broad applications in these major markets.

CT-3 is being developed as a new medication for painful inflammatory conditions such as arthritis, post-operative pain, musculoskeletal injuries, headache and neuropathic pain. In addition, the compound possesses activity in preclinical models of multiple sclerosis and the cutaneous inflammation associated with exposure to the chemical warfare blister agent sulfur mustard. The U.S. Army Medical Research Institute is pursuing further work on this application.

The principle mechanism of action of the compound appears to be the potent inhibition of the inflammatory cytokines, particularly interleukin-1 and TNF-alpha. Preliminary studies have shown that CT-3 demonstrates analgesic/anti-inflammatory properties at microgram doses without central nervous system or gastrointestinal side effects and also reduces joint damage caused by rheumatoid arthritis.

An IND (investigational new drug application) has been filed with the U.S. Food and Drug Administration for CT-3, and an initial Phase I clinical trial designed to assess the safety of CT-3 showed that it was well tolerated, with no clinical significant adverse events and no evidence of psychotropic activity. The compound is currently being studied in Europe in a small Phase II study in patients with chronic neuropathic pain.

On acquiring CT-3 Indevus paid us a licensing fee, and under the terms of our licensing agreement with Indevus it is required to pay us development milestones and royalties. Indevus will be responsible for developing and commercializing CT-3 and obtaining any required approvals. A director of Indevus is one of our shareholders; the transaction was approved by all the disinterested directors of Indevus.

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ATV-02 ANTIMICROBIAL AGENT (N-CHLOROTAURINE/NCT)

We have licensed from its inventors the worldwide rights to the ATV-02, a potent and broad-spectrum antimicrobial agent for the local treatment of topical infections. This compound is more commonly known as N-Chlorotaurine or "NCT." The compound has completed safety and tolerability studies in a limited number of subjects and has begun a series of phase II human clinical studies for the treatment of several indications, including viral and bacterial conjunctivitis and acute and chronic sinusitis.

Under the terms of the agreement, the company has exclusively licensed, including the right to sublicense, the inventors rights pertaining to any novel therapeutic use or formulation of N-Chlorotaurine and any of its derivatives or analogs, including pending and future patent applications for methods of using N-Chlorotaurine for a variety of clinical indications. Under the terms of the agreement there was no initial license fee, but we are required to pay the inventors milestone payments payable in cash or company stock at our discretion of (a) \$100,000 upon the first new patent issuance, (b) \$250,000 upon successful completion of a Phase III clinical trial, and (c) \$1,000,000 upon receiving new drug approval. We are also required to pay the inventors a total royalty of 4% of the net sales of the licensed products sold by the Company, and 20% of the royalties, which the company receives from sublicensees. Although the Company has no clinical development obligations under the license agreement, it plans to continue developing ATV-02 in Europe in cooperation with the inventors using their philanthropic funding sources and begin filing an IND in the US to develop it according to FDA regulations for approval in the US. The Company has assumed the responsibility for the preparation, filing, prosecution and maintenance of the patent applications and patent rights.

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As a broad-spectrum drug with bacterial, virucidal and fungicidal activity, ATV-02 has the potential to be a viable alternative to the use of antibiotics for the treatment of local infections. Since their discovery over a half a century ago, the misuse and overuse of antibiotics has caused a crisis of antibiotic resistant bacteria. In contrast to antibiotics, ATV-02 is a human disinfectant that is not expected to promote drug resistant bacteria.

ATV-02 is a long-lived endogenous oxidant that is normally produced in the body by human granulocytes and monocytes. It demonstrates immune modulatory properties exerted by down regulation of pro-inflammatory cytokines such as tumor necrosis factor, nitric oxide, and prostaglandins. Oxidants are important tools that stimulate human phagocytes used to attack and kill pathogens. Besides its immune controlling function, ATV-02 has demonstrated broad-spectrum bactericidal, virucidal, fungicidal and vermucidal activity, along with very low cytotoxicity against human cells and sufficient stability.

All the human clinical studies completed to date have been conducted at the University of Innsbruck, Austria under the direction of the inventors: Dr. Waldemar Gottardi, Dr. Markus Nagl and Dr. Andreas Neher. These studies have all been approved by the Innsbruck Ethics Committee, were registered by the Austrian Ministry of Health, and funded by various philanthropic sources including the Austrian Science Fund and the Jubilee Research Fund of the Austrian National Bank.

The Company will continue to evaluate the safety and efficacy of ATV-02 throughout the completion of the ongoing clinical studies being conducted in Innsbruck. Upon successful completion of these studies and the filing and approval of a US IND, the Company plans to initiate a licensing program to

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sublicense ATV-02 to a suitable strategic partner to assist in the clinical development, regulatory approval filing, manufacturing and marketing of ATV-02.

About Sinusitis

Sinusitis, or inflammation of the membrane lining the sinuses, is usually caused or complicated by a bacterial, viral or fungal infection. It's the most common reason for office-visit prescription of antibiotics in adults in the United States, and affects an estimated 14 percent of the population according to a report published in the June issue of The Journal of Allergy and Clinical Immunology. It is estimated to result in over 13 million office visits per year. Figures suggest the total annual direct cost of treatment, including drugs, office visits to doctors and surgery, is in excess of US \$2.4 billion.

About Conjunctivitis

Conjunctivitis, or "pink eye", is a bacterial or viral infection of the eye's conjunctiva, and is probably the most common infection seen in eye doctors' offices. It is a very contagious disease and causes symptoms such as tearing, redness and swelling of the conjunctiva, purulent discharge and light sensitivity. Conjunctivitis usually takes up to two weeks to run its course, and there remains no effective treatment to date for viral conjunctivitis.

ITEM 4: CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this Quarterly Report on Form 10-QSB, Atlantic's management including the Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of Atlantic's disclosure controls and procedures as defined in Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Atlantic's current disclosure controls and procedures are effective. There have been no significant changes in Atlantic's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation by the Chief Executive Officer and Chief Financial Officer.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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PART II -- OTHER INFORMATION

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS

The following documents are referenced or included in this report.

Exhibit

| Exhibit No. | Description |
|-------------|-------------|
|-------------|-------------|

| | |
|--------|---|
| 3.1(1) | Certificate of incorporation of Atlantic, as amended to date. |
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| | |
|--------|---|
| 3.2(1) | Bylaws of Atlantic, as amended to date. |
|--------|---|

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- 3.3(5) Certificate of designations of Series A Convertible Preferred Stock.
- 3.4(6) Certificate of increase of Series A Convertible Preferred Stock.
- 3.5(9) Certificate of designations, preferences and rights of Series B convertible preferred stock of Atlantic, filed on September 28, 2000.
- 3.6(9) Certificate of amendment of the certificate of designations, preferences and rights of Series B convertible preferred stock of Atlantic, filed on November 17, 2000.
- 3.7(10) Certificate of amendment of the certificate of designations, preferences and rights of Series B convertible preferred stock of Atlantic, filed on January 9, 2001.
- 3.8(10) Certificate of amendment of the certificate of designations, preferences and rights of Series B convertible preferred stock of Atlantic, filed on January 19, 2001.
- 4.2(1) Form of unit certificate.
- 4.3(1) Specimen common stock certificate.
- 4.4(1) Form of redeemable warrant certificate.
- 4.5(1) Form of redeemable warrant agreement by and between Atlantic and Continental Stock Transfer & Trust Company.
- 4.6(1) Form of underwriter's warrant certificate.
- 4.7(1) Form of underwriter's warrant agreement by and between Atlantic and Joseph Stevens & Company, L.P.
- 4.8(1) Form of subscription agreement by and between Atlantic and the Selling Stockholders.
- 4.9(1) Form of bridge note.
- 4.10(1) Form of bridge warrant.
- 4.11(2) Investors' rights agreement by and among Atlantic, Dreyfus Growth and Value Funds, Inc. and Premier Strategic Growth Fund.
- 4.12(2) Common stock purchase agreement by and among Atlantic, Dreyfus Growth and Value Funds, Inc. and Premier Strategic Growth Fund.

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- 10.2(1) Employment agreement dated July 7, 1995, between Atlantic and Jon D. Lindjord.
- 10.3(1) Employment agreement dated September 21, 1995, between Atlantic and Dr. Stephen R. Miller.
- 10.4(1) Employment agreement dated September 21, 1995, between Atlantic and Margaret A. Schalk.
- 10.5(1) Letter agreement dated August 31, 1995, between Atlantic and Dr. H.

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Lawrence Shaw.

- 10.6(1) Consulting agreement dated January 1, 1994, between Atlantic and John K. A. Prendergast.
- 10.8(1) Investors' Rights agreement dated July 1995, between Atlantic, Dr. Lindsay A. Rosenwald and VentureTek, L.P.
- 10.9(1) License and assignment agreement dated March 25, 1994, between Optex Ophthalmologics, Inc., certain inventors and NeoMedix Corporation, as amended.
- 10.10(1) License agreement dated May 5, 1994, between Gemini Gene Therapies, Inc. and the Cleveland Clinic Foundation.
- 10.11(1)+ License agreement dated June 16, 1994, between Channel Therapeutics, Inc., the University of Pennsylvania and certain inventors, as amended.
- 10.12(1)+ License agreement dated March 28, 1994, between Channel Therapeutics, Inc. and Dr. Sumner Burstein.
- 10.13(1) Form of financial advisory and consulting agreement by and between Atlantic and Joseph Stevens & Company, L.P.
- 10.14(1) Employment agreement dated November 3, 1995, between Atlantic and Shimshon Mizrachi.
- 10.15(3) Financial advisory agreement between Atlantic and Paramount dated September 4, 1996 (effective date of April 15, 1996).
- 10.16(3) Financial agreement between Atlantic, Paramount and UI USA dated June 23, 1996.
- 10.17(3) Consultancy agreement between Atlantic and Dr. Yuichi Iwaki dated July 31, 1996.
- 10.18(3) 1995 stock option plan, as amended.
- 10.19(3) Warrant issued to an employee of Paramount Capital, LLC to purchase 25,000 shares of Common Stock of Atlantic.
- 10.20(3) Warrant issued to an employee of Paramount Capital, LLC to purchase 25,000 shares of Common Stock of Atlantic.
- 10.21(3) Warrant issued to an employee of Paramount Capital, LLC to purchase 12,500 shares of Common Stock of Atlantic.
- 10.22(4) Letter agreement between Atlantic and Paramount Capital, Inc. dated February 26, 1997.
- 10.23(4) Agreement and plan of reorganization by and among Atlantic, Channel Therapeutics, Inc. and New Channel, Inc. dated February 20, 1997.
- 10.24(4) Warrant issued to John Prendergast to purchase 37,500 shares of Atlantic's Common Stock.

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- 10.25(4) Warrant issued to Dian Griesel to purchase 24,000 shares of Atlantic's Common Stock.
- 10.26(7) Amendment No. 1 to development & license agreement by and between Optex and Bausch & Lomb Surgical, Inc. dated September 16, 1999.
- 10.27(8) Financial advisory and consulting agreement by and between Atlantic and Joseph Stevens & Company, Inc. dated January 4, 2000.
- 10.28(8) Warrant No. 1 issued to Joseph Stevens & Company, Inc. to purchase 150,000 shares of Atlantic's Common Stock exercisable January 4, 2000.
- 10.29(8) Warrant No. 2 issued to Joseph Stevens & Company, Inc. to purchase 150,000 shares of Atlantic's Common Stock exercisable January 4, 2001.
- 10.30(8) Warrant No. 3 issued to Joseph Stevens & Company, Inc. to purchase 150,000 shares of Atlantic's Common Stock exercisable January 4, 2002.
- 10.31(9) Preferred stock purchase agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc.
- 10.32(9) Warrant certificate issued May 12, 2000, by Atlantic to TeraComm Research, Inc.
- 10.33(9) Stockholders agreement dated May 12, 2000, among TeraComm Research, Inc., the common stockholders of TeraComm, and Atlantic.
- 10.34(9) Registration rights agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc. with respect to shares of TeraComm preferred stock issued to Atlantic.
- 10.35(9) Registration rights agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc. with respect to shares of Atlantic common stock issued to TeraComm.
- 10.36(9) Employment agreement dated as of April 10, 2000, between Atlantic and A. Joseph Rudick.
- 10.37(9) Employment agreement dated as of April 3, 2000, between Atlantic and Frederic P. Zotos.
- 10.38(9) Employment agreement dated as of April 10, 2000, between Atlantic and Nicholas J. Rossettos, as amended.
- 10.39(9) Employment agreement dated as of May 15, 2000, between Atlantic and Walter Glomb.
- 10.40(9) Employment agreement dated as of April 18, 2000, between Atlantic and Kelly Harris.
- 10.41(10) Amendment dated as of July 18, 2000, to the Preferred Stock Purchase agreement dated May 12, 2000, between Atlantic and TeraComm Research, Inc.
- 10.42(10) Convertible preferred stock and warrants purchase agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P. and Excalibur Limited Partnership.

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10.43(10) Registration rights agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.44(10) Escrow agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

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10.45(10) Form of stock purchase warrants issued on September 28, 2000, to BH Capital Investments, L.P., exercisable for shares of common stock of Atlantic.

10.46(10) Form of stock purchase warrants issued on September 28, 2000, to Excalibur Limited Partnership, exercisable for shares of common stock of Atlantic.

10.47(10) Amendment No. 1 dated October 31, 2000, to convertible preferred stock and warrants purchase agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.48(12) Stock repurchase agreement dated December 4, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.49(14) Letter agreement dated December 28, 2000, among Atlantic and BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.50(11) Amendment No. 2 dated January 9, 2001, to convertible preferred stock and warrants purchase agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.51(14) Amendment No. 1 dated January 9, 2001, to registration rights agreement dated September 28, 2000, among Atlantic and BH Capital Investments, L.P. and Excalibur Limited Partnership.

10.52(11) Amendment No. 3 dated January 19, 2001, to convertible preferred stock and warrants purchase agreement dated September 28, 2000, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.53(14) Letter agreement dated January 25, 2001, among Atlantic and BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.54(13) Stock repurchase agreement No. 2 dated March 9, 2001, among Atlantic, BH Capital Investments, L.P., and Excalibur Limited Partnership.

10.55(15) Common stock purchase agreement dated March 16, 2001, between Atlantic and Fusion Capital Fund II, LLC.

10.56(15) Warrant certificate issued March 8, 2001 by Atlantic to Dian Griesel.

10.57(16) Common stock purchase agreement dated as of May 7, 2001, between Atlantic and Fusion Capital Fund II, LLC.

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- 10.58(16) Form of registration rights agreement between Atlantic and Fusion Capital Fund II, LLC.
- 10.59(17) Asset purchase agreement dated as of January 31, 2001, between Bausch & Lomb Incorporated, Bausch & Lomb Surgical, Inc., Optex Ophthalmologics, Inc. and Atlantic (the "January 31 Asset Purchase Agreement").
- 10.60(17) Amendment No. 1 dated March 2, 2001, to the January 31 Asset Purchase Agreement.
- 10.61(17) Asset purchase agreement dated as of April 23, 2001, between Atlantic, Gemini Technologies, Inc., and IFN, Inc.
- 10.62(18) Securities purchase agreement dated as of November 2, 2001, between Atlantic and certain investors.

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- 10.62(18) Placement agreement dated as of November 6, 2001, between Joseph Stevens & Company, Inc. and Atlantic.
- 10.64(19) License agreement dated October 18, 2001, between Dr. Waldemar Gottardi, Dr. Markus Nagl and Dr. Andreas Neher and Atlantic.
- 10.65(19)+ License agreement dated June 28, 2002, between Atlantic and Indevus Pharmaceuticals, Inc.
- 21.1(1) Subsidiaries of Atlantic.
- 99.1* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.
- 99.2* Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.

+ Confidential treatment has been granted as to certain portions of these exhibits.

* Filed herewith.

- (1) Incorporated by reference to exhibits of Atlantic's registration statement on Form SB-2, Registration #33-98478, as filed with the Securities and Exchange Commission (the "SEC") on October 24, 1995 and as amended by Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4 and Amendment No. 5, as filed with the SEC on November 9, 1995, December 5, 1995, December 12, 1995, December 13, 1995 and December 14, 1995, respectively.
- (2) Incorporated by reference to exhibits of Atlantic's Current Report on Form 8-K, as filed with the SEC on August 30, 1996.
- (3) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended September 30, 1996.

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- (4) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended March 31, 1996.
- (5) Incorporated by reference to exhibits of Atlantic's Current Report on Form 8-KSB, as filed with the SEC on June 9, 1997.
- (6) Incorporated by reference to exhibits of Atlantic's Registration Statement on Form S-3 (Registration No. 333-34379), as filed with the Commission on August 26, 1997, and as amended by Amendment No. 1 as filed with the SEC on August 28, 1997.
- (7) Incorporated by reference to exhibits of Atlantic Form 10-QSB for the period ended September 30, 1999.
- (8) Incorporated by reference to exhibits of Atlantic's Form 10-KSB for the period ended December 31, 1999.
- (9) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended June 30, 2000.
- (10) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended September 30, 2000.

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- (11) Incorporated by reference to exhibits of Atlantic's Form 8-K filed on January 24, 2001.
- (12) Incorporated by reference to exhibits of Atlantic's Form 8-K filed on December 11, 2000.
- (13) Incorporated by reference to exhibits of Atlantic's Form 8-K filed on March 14, 2001.
- (14) Incorporated by reference to exhibits of Atlantic's Form 10-KSB filed on April 17, 2001.
- (15) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended March 31, 2001.
- (16) Incorporated by reference to exhibits of Atlantic's Registration Statement on Form SB-2 (Registration No. 333-61974), as filed with the Commission on May 31, 2001, and as amended by Amendment No. 1 as filed with the SEC on June 29, 2001.
- (17) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended September 30, 2001.
- (18) Incorporated by reference to exhibits of Atlantic's Form 8-K filed on December 6, 2001.
- (19) Incorporated by reference to exhibits of Atlantic's Form 10-QSB for the period ended June 30, 2002.

REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

In accordance with the requirements of the Exchange Act, Atlantic caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ATLANTIC TECHNOLOGY VENTURES, INC.

Date: November 7, 2002

/s/ FREDERIC P. ZOTOS

Frederic P. Zotos
President and Chief Executive Officer

Date: November 7, 2002

/s/ NICHOLAS J. ROSSETTOS

Nicholas J. Rossettos
Chief Financial Officer

CERTIFICATIONS

I, Frederic P. Zotos, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Atlantic Technology Ventures, 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 officer 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 we have:
 - a) designed such disclosure controls and procedures to ensure that

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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 officer 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 function):

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 officer and I have indicated in this quarterly report whether or not 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.

/s/ FREDERIC P. ZOTOS

Frederic P. Zotos
President and Chief Executive Officer
November 7, 2002

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I, Nicholas J. Rossettos, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Atlantic Technology Ventures, 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

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cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer 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 we 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 officer 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 function):
 - 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 officer and I have indicated in this quarterly report whether or not 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.

/s/ NICHOLAS J. ROSSETTOS

Nicholas J. Rossettos
Chief Financial Officer
November 7, 2002