ATLANTIC TECHNOLOGY VENTURES INC
Form 424B3
July 10, 2001

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-61974

PROSPECTUS

3,000,000 SHARES

ATLANTIC TECHNOLOGY VENTURES, INC.

COMMON STOCK

The 3,000,000 shares of common stock of Atlantic Technology Ventures, Inc. covered by this prospectus are being offered and sold from time to time by Fusion Capital Fund II, LLC.

Atlantic's common stock is traded on the Nasdaq SmallCap Market under the symbol "ATLC".

INVESTING IN ATLANTIC'S COMMON STOCK INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 3.

The selling stockholder, Fusion Capital is an "underwriter" within the meaning of the Securities Act of 1933, as amended. Atlantic will be issuing to Fusion Capital pursuant to an equity line agreement the shares offered in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The date of this prospectus is July 10, 2001.

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PROSPECTUS SUMMARY

This summary highlights the information we present more fully in the rest of this prospectus. We encourage you to read the entire prospectus carefully.

Atlantic Technology Ventures, Inc.

We are engaged in the business of developing and commercializing early-stage technologies. Specifically, we aim to do the following:

- identify early biomedical, pharmaceutical, electronic infrastructure, software, communications or other technologies that we believe could be commercially viable;
- acquire proprietary rights to these technologies, either by license or by acquiring an ownership interest;
- fund research and development of these technologies; and
- bring these technologies to market, either directly or by selling or licensing these technologies to other companies willing to make the necessary investment to conduct the next level of research or seek required regulatory approvals.

We have in the past focused on biomedical and pharmaceutical technologies. We are currently developing two such technologies that we believe may be useful in treating a variety of diseases, including cancer, infectious disease, pain, and inflammation. We are also entitled to royalties and other revenues upon commercialization of a technology relating to cataract surgery.

We have, however, expanded our focus, and now seek to develop and commercialize a diverse portfolio of patented technologies. Consistent with this, last year we changed our name from "Atlantic Pharmaceuticals, Inc." to our current name, "Atlantic Technology Ventures, Inc." Our acquisition of an ownership interest in a company that is currently developing high-speed fiber-optic communication technologies represents our first investment in an electronic infrastructure technology.

Our offices are located at 350 Fifth Avenue, Suite 5507, New York, New York 10118 and our telephone number is (212) 267-2503.

The Offering

This prospectus covers up to 3,000,000 shares of our common stock that we expect we will issue to the selling stockholder identified in this prospectus. The number of shares subject to this prospectus, if issued and outstanding on May 7, 2001, would represent approximately 31.3% out of our issued and outstanding common stock on that date.

Common Stock Purchase Agreement

As of May 7, 2001, we entered into a common stock purchase agreement and related agreements with Fusion Capital Fund II, LLC, an Illinois limited liability company, pursuant to which Fusion Capital agreed to purchase from us from time to time over a 30-month period, subject to a 6-month extension or earlier termination at our discretion, upon our request, up to $6.0 million worth of shares of our common stock. (This agreement replaces an earlier agreement we entered into with Fusion Capital on March 16, 2001.)

We also agreed with Fusion Capital that we would file with the Securities and Exchange Commission a registration statement registering for resale under the Securities Act shares issued to Fusion Capital pursuant to this transaction. We have performed this obligation by filing the registration statement of which this prospectus is a part, and the shares being offered in this prospectus represent shares that we expect to issue to Fusion Capital in connection with this transaction.

RISK FACTORS

Investing in our common stock is very risky, and you should be able to bear losing your entire investment. You should carefully consider the risks presented by the following factors.

Our Financial Condition and Need for Substantial Additional Funding

Because we have not completed developing any of our products or generated any product sales, we expect to incur significant operating losses over the next several years and our ability to generate profits in the future is uncertain.

All of our technologies are in the research and development stage, and will require substantial funding. We expect to incur significant operating losses over the next several years, primarily due to continued and expanded research and development programs, including preclinical studies and clinical trials for our products and technologies under development, as well as costs incurred in identifying and possibly acquiring additional technologies. We do not expect to generate any additional revenues in the near future.

If we do not obtain additional funding, our ability to develop our technologies will be impeded.

We will need substantial additional funds to develop our technologies. We will seek those funds through public or private equity or debt financings, through collaborative arrangements or from other sources (including exercise of the warrants we have issued giving the holder the right to purchase shares of our capital stock for a stated exercise price). Funding may not, however, be available on acceptable terms, if at all. Additionally, if our common stock is delisted from Nasdaq, we may find it still more difficult to obtain additional funding. Furthermore, pursuant to the common stock purchase agreement with Fusion Capital, and until its termination, we have agreed not to issue any variable-priced equity or variable-priced equity-like securities unless we have obtained Fusion Capital's prior written consent. This may further impede our ability to raise additional funding.

As of March 31, 2001, we had a cash and cash equivalents balance of $2,581,497. We anticipate that our current resources will be sufficient to finance our currently anticipated needs for operating and capital expenditures for at least the next twelve months (See also Management's Discussion and Analysis).

Our Operations

To develop our technologies, we may need to enter into collaborative agreements with others. Such agreements could limit our control.

We do not have the resources to directly conduct full clinical development, obtain regulatory approvals, or manufacture or commercialize any of our proposed products, and we have no current plans to acquire such resources. Therefore, we depend upon others to carry out such activities. As a result, we anticipate that we may enter into collaborative agreements with third parties able to contribute to developing our technologies. Such agreements may limit our control over any or all aspects of development of our technologies.

We are in the early stages of developing our technologies and may not succeed in developing commercially viable products.

To be profitable, we must, alone or with others, successfully commercialize our technologies. They are, however, in early stages of development, will require significant further research, development and testing, and are subject to the risks of failure inherent in the development of products based on innovative or novel technologies. They are also rigorously regulated by the federal government, particularly the U.S. Food and Drug Administration, or "FDA," and by comparable agencies in state and local jurisdictions and in foreign countries. Each of the following is possible with respect to any one of our products:

- that we will not be able to maintain our current research and development schedules;

- that, in the case of one of our pharmaceutical technologies, we will not be able to enter into human clinical trials because of scientific, governmental or financial reasons, or that we will encounter problems in clinical trials that will cause us to delay or suspend development of one of the technologies;

- that the product will be found to be ineffective or unsafe;

- that government regulation will delay or prevent the product's marketing for a considerable period of time and impose costly procedures upon our activities;

- that the FDA or other regulatory agencies will not approve a given product or will not do so on a timely basis;

- that the FDA or other regulatory agencies may not approve the process or facilities by which a given product is manufactured;

- that our dependence on others to manufacture our products may adversely affect our ability to develop and deliver the products on a timely and competitive basis;

- that, if we are required to manufacture our own products, we will be subject to similar risks regarding delays or difficulties encountered in manufacturing the products, will require substantial additional capital, and may be unable to manufacture the products successfully or in a cost-effective manner;

- that the FDA's policies may change and additional government regulations and policies may be instituted, both of which could prevent or delay regulatory approval of our potential products; or

- that we will be unable to obtain, or will be delayed in obtaining, approval of a product in other countries, because the approval process varies from country to country and the time needed to secure approval may be longer or shorter than that required for FDA approval.

Similarly, it is possible that, for the following reasons, we may be unable to commercialize, or receive royalties from the sale of, any given technology, even if it is shown to be effective:

- if it is uneconomical;

- if, in the case of one of our pharmaceutical technologies or the Catarex device, it is not eligible for third-party reimbursement from government or private insurers;

- if others hold proprietary rights that preclude us from commercializing it;

- if others have brought to market equivalent or superior products;

- if others have superior resources to market similar products or technologies;

- if government regulation imposes limitations on the indicated uses of a product, or later discovery of previously unknown problems with a

product results in added restrictions on the product or results in the product being withdrawn from the market; or

- if it has undesirable or unintended side effects that prevent or limit its commercial use.

Our ability to compete will suffer if we are unable to protect our patent rights and trade secrets or if we infringe the proprietary rights of third parties.

Our success will depend to a large extent on our ability to obtain U.S. and foreign patent protection for drug candidates and processes, preserve trade secrets and operate without infringing the proprietary rights of third parties.

To obtain a patent on an invention, one must be the first to invent it or the first to file a patent application for it. We cannot be sure that the inventors of subject matter covered by patents and patent applications that we own or license were the first to invent, or the first to file patent applications for, those inventions. Furthermore, patents we own or license may be challenged, infringed upon, invalidated, found to be unenforceable, or circumvented by others, and our rights under any issued patents may not provide sufficient protection against competing drugs or otherwise cover commercially valuable drugs or processes.

We seek to protect trade secrets and other unpatented proprietary information, in part by means of confidentiality agreements with our collaborators, employees, and consultants. If any of these agreements is breached, we may be without adequate remedies. Also, our trade secrets may become known or be independently developed by competitors.

Because we carry only a limited amount of product liability insurance, product liability claims brought against us could adversely affect our business.

If we develop and commercialize any products, through third-party arrangements or otherwise, we may be exposed to product liability claims. Some of our license agreements require us to obtain product liability insurance when we begin clinical testing or commercialization of our proposed products and to indemnify our licensors against product liability claims brought against them as a result of the products developed by us. We may not be able to obtain such insurance at all or in sufficient amounts to protect us against such liability or at a reasonable cost.

Any breach by us of environmental regulations could result in our incurring significant costs.

Federal, state and local laws, rules, regulations and policies govern our use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. Although we believe that we have complied with these laws and regulations in all material respects and have not been required to take any action to correct any noncompliance, we may be required to incur significant costs to comply with environmental and health and safety regulations in the future. In addition, our research and development activities involve the controlled use of hazardous materials and we cannot eliminate the risk of accidental contamination or injury from these materials, although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal

regulations. In the event of an accident, we could be held liable for any resulting damages and we do not have insurance to cover this contingency.

Our Securities

We risk being delisted from Nasdaq, and the resulting market illiquidity could adversely affect our ability to raise funds.

Although our common stock, redeemable warrants and the units offered in our initial public offering are quoted on the Nasdaq SmallCap Market, continued inclusion of those securities on Nasdaq will require the following:

- that we maintain at least $2,000,000 in net tangible assets;
- that the minimum bid price for the common stock be at least $1.00 per share;
- that the public float consist of at least 500,000 shares of common stock, valued in the aggregate at more than $1,000,000;
- that the common stock have at least two active market makers;
- that the common stock be held by at least 300 holders; and
- that we adhere to certain corporate governance requirements.

If we are unable to satisfy any of these maintenance requirements, our securities may be delisted from Nasdaq.

With regard to our minimum bid price, March 20, 2001, marked the thirtieth consecutive business day that the minimum bid price of our common stock was less than $1.00. This constituted a failure on our part to meet Nasdaq's continued inclusion requirement for minimum bid price. On March 22, 2001, Nasdaq notified us of this failure, and we had a period of 90 calendar days from that notice to comply with the continued inclusion standard for minimum bid price. To do so, we would have had to meet that standard for a minimum of 10 consecutive business days during the 90-day compliance period. We failed to do so, and on June 21, 2001, Nasdaq notified us that we

would be delisted on June 29, 2001, unless by June 28, 2001, we request a hearing before Nasdaq's Listing Qualifications Panel. On June 28th, we requested a hearing, and a hearing has been scheduled for August 9, 2001. Our hearing request will stay the delisting of our common stock pending the Panel's decision. The hearing will be scheduled within 45 days of the date we file our request. During the hearing, we intend to request, based on our particular circumstances, an extension of the time allotted to raise our share price. There can be no assurance the Panel will grant our request.

If our securities are delisted, trading, if any, in the securities would thereafter be conducted in the over-the-counter market in the "pink sheets" or the National Association of Securities Dealers' "Electronic Bulletin Board." Consequently, the liquidity of our securities could be materially impaired, not only in the number of securities that could be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us, which could result in lower prices for

our securities than might otherwise be attained and could also result in a larger spread between the bid and asked prices for our securities. In addition, if our securities are delisted it could materially and adversely affect our ability to raise funding.

In addition, if our securities are delisted from trading on Nasdaq and the trading price of our common stock is less than $5.00 per share, our common stock will become a "penny stock." Broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. This document provides information about penny stocks and the nature and level of risks involved in investing in the penny-stock market. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser, and obtain the purchaser's written agreement to the purchase. In the event our securities are delisted, the penny stock rules may make it difficult for you to sell your shares of our stock. Because of the rules, there is less trading in penny stocks. Also, many brokers choose not to participate in penny stock transactions.

Because holders of our Series A preferred stock have rights superior to those of the holders of our common stock, in certain circumstances holders of our common stock may be adversely affected.

Holders of shares of our outstanding Series A preferred stock can convert each share into 3.27 shares of our common stock without paying us any cash. The conversion price of shares of Series A preferred stock is $3.06 per share of common stock. Both the conversion rate and the conversion price may be adjusted in favor of holders of shares of Series A preferred stock upon certain triggering events. Accordingly, the number of shares of common stock that holders of shares of Series A preferred stock receive upon conversion may increase, which could adversely affect the prevailing market price of our securities.

In addition, each February 7 and August 7 we are obligated to pay dividends, in arrears, to the holders of shares of Series A preferred stock, and the dividends consist of 0.065 additional shares of Series A preferred stock for each outstanding share of Series A preferred stock. Our issuing additional shares of Series A preferred stock without payment of any cash to us could adversely affect the prevailing market price of our securities.

If we are liquidated, sold to or merged with another entity (and we are not the surviving entity after the merger), we will be obligated to pay holders of shares of Series A preferred stock a liquidation preference of $13.00 per share before any payment is made to holders of shares of common stock. After payment of the liquidation preference, we might not have any assets remaining to pay the holders of shares of common stock. The liquidation preference could adversely affect the market price of our securities.

The holders of shares of Series A preferred stock have rights in addition to those summarily described. A complete description of the rights of the Series A preferred stock is contained in the certificate of designations of the Series A preferred stock filed with the Secretary of State of Delaware.

Given the limited trading volume of our shares, investors may experience

delay in liquidating an investment in our securities.

Our securities are traded on the Nasdaq SmallCap Market and lack the liquidity of securities traded on the principal trading markets. Accordingly, an investor may find it impossible to promptly liquidate an investment in our securities. Also, the sale of a large block of our securities could depress the price of our securities to a greater degree than a company that typically has a higher volume of trading in its securities.

Because many factors may have a significant impact upon the market price of our common stock, the market price of our common stock may continue to be highly volatile.

The market price of our common stock has been highly volatile, and we expect that this will continue to be the case. Many factors, including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, government regulation, developments or disputes relating to agreements, patents or proprietary rights, may have a significant impact on the market price of our stock. In addition, the potential dilutive effects of future sales of shares of common stock by us and by stockholders, including Fusion Capital pursuant to this prospectus, and the subsequent sale of common stock by the holders of warrants and options could depress the market price of our securities. Sale of shares of our common stock to Fusion Capital may cause dilution, and sale of those shares by Fusion Capital could cause the price of our common stock to decline.

The purchase price for the common stock to be issued to Fusion Capital under the common stock purchase agreement will fluctuate based on the closing price of our common stock.

All shares registered in this offering will be freely tradeable. However, Fusion Capital has agreed that it will not sell or otherwise transfer the commitment shares until the earliest of termination of the common stock purchase agreement, our default under the agreement, or approximately 30 months from the date of the common stock purchase agreement. Fusion Capital may at any time sell none, some or all of the shares of common stock purchased from us. We expect that shares registered in this offering will be sold over a period of up to 30 months from the date of this prospectus. Depending upon market liquidity at the time, a sale of shares under this offering at any given time could cause the trading price of our common stock to decline. The sale of a substantial number of shares of our common stock under this offering, or anticipation of such sales, could make it more difficult for us to sell equity or equity related securities in the future at a time and at a price that it might otherwise wish to effect sales.

If Fusion Capital were to purchase the full amount of shares purchasable under the common stock purchase agreement on the date of this prospectus, and assuming a purchase price per share of $0.68 (the closing sale price of the common stock on May 3, 2001), Fusion Capital would be able to purchase 2,400,000 shares of our common stock under the common stock purchase agreement, in addition to the 600,000 shares of common stock issued to it as a commitment fee. Assuming Fusion Capital's purchase under the common stock purchase agreement of a total of 2,400,000 shares of common stock on the date of this prospectus, those shares, along with the 600,000 shares issued to it as a commitment fee, would represent 31.3% of our then outstanding common stock. This would result in significant dilution to the ownership interests of other holders of our common stock. Such dilution could be more significant if the trading price of our common stock is lower than the current trading price of our stock at the time Fusion Capital purchases shares of our common stock under the common stock purchase agreement, as a lower trading price would increase the number of shares of our common stock to be issuable to Fusion Capital for any given dollar

amount.

We can require Fusion Capital to purchase additional shares if our closing sale price on each of the five trading days immediately prior to the first trading day of any 30-day period is at least $5.00, provided the closing sale price of our common stock during such 30-day period or periods remains at least $5.00. The purchase under the common stock purchase agreement of a significant percentage of our outstanding stock would result in substantial dilution to the ownership interests of other holders of our common stock. See page 21 for a table that shows the number of shares issuable and potential dilution based on varying market prices. If we issue all 2,400,000 shares that we have registered in this offering for Fusion Capital to purchase under the common stock purchase agreement,

our stock price will need to equal or exceed $2.50 per share for us to receive the maximum proceeds of $6.0 million under the common stock purchase agreement. Assuming a purchase price of $0.68 per share (the closing sale price of the common stock on May 3, 2001) and the purchase by Fusion Capital of the full amount of shares offered by this prospectus, proceeds to us would only be $1,632,120 unless we choose to issue more than 2,400,000 shares, which we have the right, but not the obligation, to do.

The existence of the agreement with Fusion Capital to purchase shares of our common stock could cause downward pressure on the market price of our common stock.

Both the actual dilution and the potential for dilution resulting from sales of our common stock to Fusion could cause holders to elect to sell their shares of our common stock, which could cause the trading price of our common stock to decrease. In addition, prospective investors anticipating the downward pressure on the price of the Atlantic common stock due to the shares available for sale by Fusion Capital could refrain from purchases or effect sales in anticipation of a decline of the market price.

Any time the price of our common stock is less than $0.68, we may not sell to Fusion Capital any of our shares, and if we are delisted, Fusion Capital would thereafter not be obligated to purchase any of our shares. Either circumstance could adversely affect our ability to raise funds under our common stock purchase agreement with Fusion Capital.

Our common stock purchase agreement with Fusion Capital provides that we may not sell any of our shares to Fusion Capital if the purchase price per share is less than $0.68, which was the market price of our common stock on May 3, 2001, the date of our common stock purchase agreement with Fusion Capital. In addition, the common stock purchase agreement provides that if we are delisted from the Nasdaq SmallCap Market, Fusion Capital will thereafter not be required to purchase any shares of common stock under the agreement. Either circumstance could adversely affect our ability to raise funds under our common stock purchase agreement with Fusion Capital. (In this context, note that Nasdaq is currently considering whether to delist us from the Nasdaq SmallCap Market.)

DESCRIPTION OF BUSINESS

GENERAL

We are engaged in the business of developing and commercializing early-stage technologies. Specifically, we aim to do the following:

- identify early biomedical, pharmaceutical, electronic infrastructure, software, communications or other technologies that we believe could be commercially viable;
- acquire proprietary rights to these technologies, either by license or by acquiring an ownership interest;
- fund research and development of these technologies; and
- bring these technologies to market, either directly or by selling or licensing these technologies to other companies willing to make the necessary investment to conduct the next level of research or seek required regulatory approvals.

We have in the past focused on biomedical and pharmaceutical technologies. We are currently developing one such technology that we believe may be useful in treating pain and inflammation. We are also entitled to royalties and other revenues in connection with commercialization of technologies relating to cataract surgery and to treating cancer and infectious diseases.

We have, however, expanded our focus, and now seek to develop and commercialize a diverse portfolio of patented technologies. Consistent with this, last year we changed our name from "Atlantic Pharmaceuticals, Inc." to our current name, "Atlantic Technology Ventures, Inc." Our acquisition of an ownership interest in a company that is currently developing high-speed fiber-optic communication technologies represents our first investment in an electronic infrastructure technology.

CORPORATE STRUCTURE

We were incorporated in Delaware on May 18, 1993. Any technologies or rights to royalties or other revenues are held either by Atlantic or by our subsidiaries Optex Ophthalmologics, Inc., or "Optex," and Gemini Technologies, Inc., or "Gemini."

We seek to minimize administrative costs, thereby maximizing the capital available for research and development. We do so by providing a centralized management team that oversees the transition of products and technologies from the early development stage to commercialization. In addition, we budget and monitor funds and other resources among Atlantic and our subsidiaries, thereby providing flexibility to allocate resources among technologies based on the progress of individual technologies.

ATLANTIC AND ITS SUBSIDIARIES

Optex and the Catarex Technology

Our majority-owned (81.2%) subsidiary, Optex, is entitled to royalties and other revenues in connection with commercialization of Catarex technology. Bausch & Lomb, a multinational ophthalmics company, is developing this technology to overcome the limitations and deficiencies of traditional cataract extraction techniques. Optex had been the owner of this technology, and was

developing it pursuant to a development agreement with Bausch & Lomb, but on March 2, 2001, Optex sold to Bausch & Lomb substantially all of its assets, including those related to the Catarex technology.

Relationship with Bausch & Lomb

In May 1998, Optex entered into a development and licensing agreement pursuant to which it granted to Bausch & Lomb Surgical Incorporated, an affiliate of Bausch & Lomb, a worldwide license to its rights to the Catarex device. (For a description of the Catarex device, see "The Catarex Device and its Applications," below). Under this agreement, Bausch & Lomb was responsible for clinical testing, obtaining regulatory approval worldwide, and manufacturing and commercializing the Catarex device. In addition, Bausch & Lomb undertook to make milestone payments to Optex, as well as royalty payments on sales of the Catarex device, and was required to reimburse Optex for all of its costs, up to $2.5 million, related to the initial phase of development of the Catarex device. Prior to amendment of this agreement in September 1999, reimbursements from Bausch & Lomb were treated as a reduction of expenses and totaled $2,276,579 since the inception of the agreement.

In September 1999, Optex and Bausch & Lomb Surgical amended this agreement to expand Optex's role in development of the Catarex surgical device. In addition to the basic design work provided for in the original agreement, Optex was required to deliver to Bausch & Lomb within a stated period of time a number of Catarex devices for use in clinical trials, and was required to assist Bausch & Lomb in developing manufacturing processes for scale-up of manufacture of the Catarex device. Bausch & Lomb reimbursed Optex for all costs, including labor, professional services and materials, that Optex incurred in delivering these Catarex devices and performing manufacturing services, and paid Optex a profit component based upon certain of those costs. As of December 31, 2000, development revenue under the September 1999 amendment totaled $6,251,798, with a net profit component of $1,250,360.

Pursuant to an asset purchase agreement dated January 31, 2001, among Bausch & Lomb, 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 Catarex technology. Upon the sale, Atlantic and Optex have no further obligations to Bausch & Lomb. The purchase price was $3 million paid at closing. Optex is also entitled to receive additional consideration, namely $1 million, once Bausch & Lomb receives regulatory approval to market the Catarex 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 Catarex 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 Catarex technology at fair value.

Upon the sale, Bausch & Lomb's development agreement with Optex was terminated. As of December 31, 2000, and including the $3 million purchase price of Optex assets received on March 2, 2001, Bausch & Lomb payments to Optex have totaled $14,028,377, of which $6,750,360 was realized as net profit to Optex. Management believes that Bausch & Lomb will aggressively pursue commercialization of the assets purchased. On May 9, 2001, the Company's Board of Directors, after

consideration of all the relevant facts and circumstances including recommendations of counsel, agreed to authorize a payment of $240,000 in aggregate to three former employees of Optex (who are now 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. We did not believe these monies were due pursuant to the terms of the transaction itself and 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 potential future royalties from Bausch & Lomb and the importance of these individuals to the ongoing development activities. The payment will be recorded as an expense in the June 30, 2001 statement of operations.

Cataracts and Current Cataract-Removal Technology

One of the most common vision disorders is cataracts, or the clouding of the normally clear lens inside the eye. This results in increased glare, decreased vision, or both. Cataracts progressively degrade visual acuity, and restoring vision eventually requires that the affected lens be surgically extracted. Cataracts may exist at birth, may result from aging or may be caused by injury or disease. Cataract surgery is currently the most frequently performed therapeutic surgical procedure in the U.S. among persons over 65 years of age. Medicare pays $3.4 billion a year for 1 million of the 1.3 million cataract procedures performed annually in the U.S. Each year approximately 3.6 million cataract surgeries are performed worldwide. According to the American Academy of Ophthalmology, the chances are 50% that a person between the ages of 52 and 64 will develop a cataract, and by age 75 almost everyone will develop a cataract. We anticipate that given the aging of the world population, the number of cataract removal procedures performed each year will increase in the near future.

Currently, there are two principal technologies that are widely used for cataract removal: extracapsular cataract extraction, or "ECCE," and phacoemulsification, or "phaco." Until relatively recently, most cataract procedures were done by means of ECCE, which is generally a simple and reliable procedure that can be used with cataracts of any density. The ECCE procedure requires direct surgical extraction of the entire lens nucleus in one step through an approximately 11 millimeter, or "mm," incision in the eye and an approximately 6mm opening in the lens capsule inside the eye. The residual cortical material (the softer material that surrounds the lens nucleus) is then removed using a mechanical irrigation/aspiration device. Once the lens is completely removed, an intraocular synthetic polymer lens is inserted into the eye and placed in the remaining portion of the lens capsule.

Although it is an effective procedure, ECCE has a number of disadvantages, including the time required for surgery, post-operative recovery and visual rehabilitation.

In a phaco procedure, the surgeon uses an ultrasound-emitting handpiece to sculpt or carve the lens nucleus. An incision of approximately 3mm to 5mm is made in the eye and an opening of approximately 5mm is made in the lens capsule. As these incisions are smaller than those required in ECCE procedures, patients generally recover faster, and also experience better post-operative results, due to a reduction in astigmatism induced by wound healing. Phaco, however, also has disadvantages. For one, performing a phaco procedure successfully requires considerable skill and much training. Also, the ultrasound energy used in, and stray fragments of the lens nucleus resulting from, a phaco procedure can damage the cells that line the inner layer of the cornea, which in turn can cause them to degenerate.

The Catarex Device and its Applications

The Catarex device removes the lens nucleus and cortex in a single step through a small incision in the eye while leaving the lens capsule functionally intact. The Catarex device is inserted into the eye through an incision of less than 3mm and advanced into the lens capsule through a less than 1.5mm incision. Once positioned within the lens capsule, the device is activated and the lens nucleus and cortex are removed in a matter of minutes through the action of fluid vortex forces drawing the lens material to the device, where it is mechanically emulsified and

aspirated. A synthetic lens would then be placed in the capsule; given the limitations of currently available intraocular lenses, the incision in the lens capsule would need to be slightly enlarged.

We believe that the Catarex device has several advantages over existing technologies that should facilitate it being accepted by the ophthalmic community:

- If successfully developed, Catarex would allow the entire cataract, including the lens nucleus and cortex, to be removed through incisions in the eye and lens capsule that would be smaller than the incisions required in either ECCE or phaco procedures. We anticipate that this would reduce operating time and the trauma associated with operating, which in turn would speed recovery.

- Speedier patient recovery would reduce the costs involved in cataract surgery, an important consideration in this era of managed care and cost containment.

- We expect that cataract extraction using the Catarex device will leave the anterior lens capsule of the lens functionally intact, which would shield from damage the cells that line the inner surface of the cornea.

- We expect that surgeons will find the Catarex device easier to master than phaco extraction, as the operating principles of the device eliminate the need for the skill-intensive sculpting required in the phaco procedure.

- Studies have indicated that the Catarex device can be used on cataracts of all degrees of hardness.

- Leaving the lens capsule functionally intact would permit the insertion of liquid polymer lenses, once they are developed. Liquid polymer lenses are lenses made of injectable substances that can be used to refill the original lens capsule. The use of injectable lenses in conjunction with lens extraction using the Catarex device could result in the Catarex device being used not only in cataract surgery, but also to treat all refractive errors, including myopia (nearsightedness), hyperopia (farsightedness) and presbyopia (the loss of near vision that occurs with age).

CT-3 Technology

Atlantic is developing CT-3, a synthetic derivative of the major active ingredient in marijuana, for use in the treatment of inflammation and pain and

other indications.

Background

There has been much publicity regarding whether patients are adequately treated for acute and chronic pain. This is due, in part, to the significant side effects of the more common drugs used to treat pain.

Acute pain encompasses such medical conditions as post-operative pain, as well as pain from acute injuries. Chronic pain covers a broad range of conditions, including headaches, cancer pain, arthritis pain, low back pain, neuropathic pain, and psychogenic pain. Although difficult to quantify, it is estimated that roughly 130 million people suffer from chronic pain in the U.S. alone, with about 3 million new diagnoses of chronic pain per year.

The single biggest cause of chronic pain is arthritis. An estimated 40 million people in the U.S. suffer from arthritis, as do an equal number in Europe. Osteoarthritis is the more common form, and 60% of its victims are women. Half of those suffering from osteoarthritis are under the age of 65. The number of people with osteoarthritis is expected to double by 2020 as the number of elderly people continues to grow.

A more debilitating form of arthritis is rheumatoid arthritis, affecting about 2.5 million people. Chronic pain and inflammation management are critical in this patient segment. Cancer pain is another market, with about 1 million new diagnoses of cancer per year, a majority of them requiring pain management.

Other causes of chronic pain are fibromyalgia (a connective tissue disorder causing pain affecting approximately 5 million people), and peripheral neuropathy.

Currently available analgesic (anti-pain) and anti-inflammatory drugs include narcotics, non-narcotic analgesics, corticosteroids and nonsteroidal anti-inflammatory drugs, or "NSAIDs." Although highly effective as analgesics, the usefulness of narcotics is limited by significant adverse effects, including their potential to cause addiction. In contrast, non-narcotic analgesics are safer but, due to their low potency, have limited usefulness in cases of severe chronic pain. Use of corticosteroids, which are highly effective as anti-inflammatory agents, is limited by their potentially significant side effects. Traditional NSAIDs, such as aspirin, ibuprofen and indomethacin, are generally safer than corticosteroids for long-term use, but they too can cause significant side effects when used chronically. While the newer NSAIDs categorized as COX-2 inhibitors, for example Celebrex (developed by G.D. Searle & Co.) and Vioxx (developed by Merck & Co.), are potentially less prone to cause ulcers than are traditional NSAIDs, they do not appear to be more effective for the relief of pain or inflammation.

Although a major focus of pharmaceutical research for many years has been the development of safe, powerful anti-inflammatory and analgesic drugs with minimal adverse side effects, no such universally safe and efficacious drug has been developed. A variety of compounds are in preclinical and early clinical development, but it is not evident that an acceptable combination of efficacy and safety has yet been achieved.

In addition to the many pharmacological products, various alternative

treatments have been utilized due to the continued need for additional types of pain management. The FDA estimated that there are approximately 9-12 million visits per year for acupuncture treatment of chronic pain. In addition, various herbs and nutritional supplements claim to relieve pain. Modified diets and various relaxation techniques have been utilized by some patients, seeking relief from their pain. Other devices, such as implanted opioid pumps, are marketed for chronic pain. This indicates that there is a continued need for alternative treatments to relieve pain.

The CT-3 Technology and Its Applications

We have proprietary rights to a group of compounds, one of which is currently designated "CT-3." CT-3 is a synthetic derivative of (DELTA)9 tetrahydrocannabinol (THC), the major active ingredient of marijuana. It was designed to maximize the potent efficacious medicinal properties of marijuana without producing its undesirable psychotropic side effects. Based upon the broad anti-inflammatory and analgesic properties exhibited in preclinical studies, we believe that this group of compounds may be useful in the treatment of inflammation and pain, as well as several other indications, including musculoskeletal disorders, neurological disorders, cancer, glaucoma, and gastrointestinal disorders. We also believe, based on preclinical studies and an initial phase I human clinical trial, that this group of compounds has a reduced potential for side effects.

Animal studies have shown that CT-3 lacks the ulcer causing side effects of NSAIDs. Animal studies using dosages significantly higher than the anticipated therapeutic dose of CT-3 have indicated a lack of central nervous system side effects (psychoactivity), and we believe that CT-3 provides anti-inflammatory and analgesic effects without the psychoactive effects of THC. Also, a clinical trial designed to measure the safety and pharmacokinetics of CT-3 resulted in no clinically relevant-adverse events and no evidence of marijuana-like psychoactivity. Several in vitro studies have indicated that CT-3 acts by inhibiting and reducing the release or synthesis of several different mediators of inflammation including cytokines, metalloproteinases, leukotrines, and cylcooxygenases. In addition, tests in an in vivo model of rheumatoid arthritis have shown CT-3 to have significant anti-inflammatory effects, including the potential to reduce the amount of joint destruction caused by rheumatism. Subsequent studies have substantiated these findings and have demonstrated that CT-3 can minimize the effects of adjuvant-induced arthritis in rats. We also believe that it is not yet known whether this compound is more clinically effective than traditional NSAIDs, corticosteroids, COX-2 inhibitors and the variety of potential competitor compounds in late preclinical and early clinical development. The preliminary data therefore suggest that CT-3 appears to have significant potential for therapeutic benefit in the treatment of chronic pain and inflammation that potentially lacks the major side effects of traditional anti-inflammatory drugs and analgesics.

Research and Development Activities

Atlantic is developing CT-3 as the lead compound in the series of patented compounds. CT-3 has been tested in a Phase I clinical trial and in many pre-clinical in vitro and in vivo studies to profile its potential activity and to evaluate its usefulness in treating medical conditions. This evaluation process started with a focus on

analgesic and anti-inflammatory processes and has been broadened to include musculoskeletal disorders, neurological disorders, gastrointestinal disorders, psychiatric disorders, glaucoma, and cancer.

In 2000 we successfully filed an investigational new drug (IND) application with the FDA for CT-3 and signed a contract with Aster Clinical Research Center in Paris, France, to conduct the Phase I clinical trial. The clinical trial was designed to measure the safety and pharmacokinetics of CT-3 in human subjects. As expected, the Phase I clinical trial was successfully completed and showed that CT-3 was safe. There occurred no clinically-relevant adverse events and no evidence of marijuana-like psychoactivity was found.

After completing the Phase I clinical trial, we increased our efforts to sublicense CT-3 to suitable strategic partners to assist in clinical development, regulatory approval filing, manufacturing and marketing of CT-3. We anticipate that by the fourth quarter of 2001 we will have found a corporate partner to continue the clinical development of CT-3. In addition, we are considering conducting a Phase II clinical trial ourselves. Since CT-3 appears to possess a wide range of therapeutic activity, we are carefully choosing an indication that we feel CT-3 would be most efficacious for and one that will strategically allow us to increase the licensing value of CT-3 in the most timely and cost effective manner.

In addition, in the fourth quarter of 2000, the U.S. Patent and Trademark Office issued us a new US patent 6,162,829 that covers the use of analogs of CT-3 as analgesic or anti-inflammatory agents.

Competition

The market for the treatment of chronic pain and inflammation is large and highly competitive. Several multinational pharmaceutical companies currently have many popular products in this market and many companies have active research programs to identify and develop more potent and safer anti-inflammatory and analgesic agents. One notable area of research is in the development of "COX-2 inhibitors," which are claimed to be safer to the stomach than available NSAIDs. (COX-2 inhibition is not considered a significant contributor to the mechanism of action of CT-3; in vitro studies have shown very weak COX-2 inhibition.) Two COX-2 inhibitor compounds have recently received FDA approval and several others are in various stages of clinical development. We believe that the potential advantages of CT-3 make it worth developing, and that if we succeed, CT-3 could become a significant new agent in the treatment of pain and inflammation.

Proprietary Rights

We have an exclusive worldwide license to four U.S. patents and corresponding foreign applications covering a group of compounds, including CT-3. The licensor is Dr. Sumner Burstein, a professor at the University of Massachusetts. This license extends until the expiration of the underlying patent rights. The primary U.S. patent expires in 2012 and the new analog patent 6,162,829 expires in 2017. We have the right under this license to sublicense our rights under the license. The license requires that we pay royalties to Dr. Burstein based on sales of products and processes incorporating technology licensed under the license, as well as a percentage of any income derived from any sublicense of the licensed technology. Furthermore, pursuant to the terms of the license, we must satisfy certain other terms and conditions in order to retain the license rights. If we fail to comply with certain terms of the license, our license rights under the license could be terminated.

Gemini and the 2-5A Antisense Technology

Pursuant to an asset purchase agreement dated April 23, 2001, among

Atlantic, Atlantic's majority-owned subsidiary Gemini Technologies, Inc., the Cleveland Clinic Foundation, or "CCF," and CCF's affiliate IFN, Inc., on May 4, 2001, Gemini sold to IFN substantially all its assets (mostly intangible assets with no book value), including all those related to the 2-5A antisense enhancing technology for future contingent royalty payments and withdrawal of arbitration described below.

As the purchase price for Gemini's assets, IFN agreed to pay Gemini, upon receipt, an amount equal to 20 percent of all amounts that CCF is entitled to pursuant to the Cleveland sublicense, subject to adjustments. The purchase price will be reduced by 1 percent of the sublicense fees for each $150,000 expended by IFN to develop

the technology, subject to a floor of 5 percent. In addition, upon closing CCF withdrew its outstanding arbitration demand against Gemini and Atlantic, with prejudice, and each party is obligated to pay its own costs and attorneys' fees related thereto.

We feel that this solution represents a satisfactory alternative to two undesirable alternatives, namely (1) termination of the Cleveland sublicense with no compensation to Gemini and substantial shutdown costs and (2) continued development of 2-5A at levels that Gemini would not be able to justify or sustain.

Our Diversification Strategy

Early in 2000 we adopted a broader approach in selecting technologies to develop. Consistent with this approach, effective March 21, 2000, Atlantic's name was changed from "Atlantic Pharmaceuticals, Inc." to its current name.

This broader approach is reflected in our acquisition on May 12, 2000, of an ownership interest in TeraComm Research, Inc., a privately-held company that is currently developing next-generation fiber optic communications technologies, namely a high-speed fiber-optic transceiver.

The purchase price for our ownership interest was $5 million in cash, 200,000 shares of our common stock and a warrant to purchase 200,000 shares of our common stock. TeraComm issued us 1,400 shares of its Series A preferred stock representing a 35% ownership interest. Taking into account the cash purchase price and the value of the common stock at the signing of the letter of intent, we valued this deal at $6,795,000. We are accounting for the investment in TeraComm in accordance with the equity method of accounting for investments since we have the ability to exert significant influence over TeraComm, including through our Board representation and other involvement with management of TeraCom.

TeraComm is developing a fiberoptic transmitter that uses a high-temperature superconductor (HTS) material to switch a laser beam on and off with a high-speed electronic digital signal. HTS materials have zero electrical resistance at low temperatures (<70 K), and also can have very high optical reflectance in their superconducting state while they can transmit light in their normal (non-superconducting) state. TeraComm discovered that a small electric current in an HTS material could switch the material between states, and do so very quickly--in less than a millionth millionth of a second. Because the HTS optical switch works best at far infrared wavelengths and these optical

waves are too large to send through an optical fiber, the TeraComm invention employs an optical wavelength converter to change the waves to the band that is just right for the fiber.

Thus far, TeraComm has successfully developed methods of producing effective HTS thin-films with metal electrodes, has successfully demonstrated control of optical transmission in HTS films using electric current, and has been awarded patents covering implementation of this technology for fiberoptic telecommunications. TeraComm has not yet achieved the technical milestone that it needs to achieve for further progress in developing their technology. TeraComm has informed us that it is seeking to raise additional funding to continue its development program and achieve this technical milestone.

Due to our need to preserve our cash resources and due to our uncertainty regarding TeraComm's plans for developing its technology, we ultimately paid only $1 million of the $5 million cash portion of the purchase price. As a consequence, we were required to surrender to TeraComm a number of our shares of TeraComm's preferred stock, which had the effect of reducing to 14.4% our actual ownership interest. However, Atlantic continues to hold one seat on the Board of Directors and therefore continues to have the ability to exert significant influence.

On May 23, 2000, we announced our appointment of Walter L. Glomb, Jr., as Vice President. Mr. Glomb is responsible for supporting our investment in TeraComm and identifying complimentary electronic infrastructure and communication technologies for us to develop. Mr. Glomb is based in our new office in Vernon, Connecticut, in the center of the major cluster of photonics companies that stretches from Boston to New Jersey. Atlantic's new strategy focuses on our developing strategic partnerships with early-stage companies, and we feel that this region promises to be a rich source of such partnerships.

EMPLOYEES

We currently have five employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 this prospectus, and should not unduly rely on these forward looking statements.

OVERVIEW

We were incorporated in Delaware on May 18, 1993, and commenced operations on July 13, 1993. We are engaged in the development of biomedical, pharmaceutical, electronic infrastructure, software and communications products and technologies. We have rights to two technologies which we believe may be useful in the treatment of a variety of diseases, including cancer, infectious disease, and pain and inflammation, and we are entitled to royalties and other

revenues in connection with a third technology, relating to the treatment of ophthalmic disorders. Our existing products and technologies under development are each held either by us or our subsidiaries. We have been unprofitable since inception and expect to incur substantial additional operating losses over the next several years. The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form SB-2.

Results of Operations

From the commencement of operations through March 31, 2001, we have generated $11,830,379 of revenue.

Three Months Ended March 31, 2001 Versus Three Months Ended March 31, 2000

In accordance with a license and development agreement, as amended, Bausch & Lomb Surgical has paid our subsidiary, Optex Ophthalmologics, Inc. ("Optex"), for developing its Catarex technology. For the three months ended March 31, 2001, this agreement provided $2,461,922 of development revenue, and related cost of development revenue of $2,082,568. For the three months ended March 31, 2000, this agreement provided $912,481 of development revenue, and related cost of development revenue of $729,985. The primary reason for the substantial increase in revenues over last year was the recognition of a project completion bonus of $1,067,345 paid out and recognized at the completion of the project in March 2001. With the termination of the above agreement at the conclusion of the sale of substantially all of Optex's assets in March 2001, as described further below, we will no longer have the revenues or profits associated with that agreement available to us.

For the quarter ended March 31, 2001, research and development expense was $306,767 as compared to $127,439 in the first quarter of 2000. This increase is due to increased expenditures on certain development projects including CT-3 as we have been assessing potential markets and developing test plans for a Phase II study.

For the quarter ended March 31, 2001, general and administrative expense was $681,948 as compared to $495,678 in the first quarter of 2000. This increase is largely due to an increase in payroll costs over last year of approximately $72,000 and a finders fee of $120,000 incurred in conjunction with a common stock purchase agreement entered into during the first quarter 2001 with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to $6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. The receipt of funds under this agreement will commence upon effective registration and certain other conditions which are targeted for June 2001. A material contingency that may affect our operating plans and ability to raise funds is our stock price. If our stock price remains at current levels, we will be limited in the amount of funds we will be able to draw as defined by the Fusion Capital

agreement. As the Fusion Capital agreement is currently structured, we do not have a guarantee that we will be able to draw any funds. See Liquidity and Capital Resources for further details on this agreement.

For the quarter ended March 31, 2001, we had compensation expense relating to stock warrants of $11,971 associated with warrants issued to Dian Griesel

during March 2001 as partial compensation for investor relations services. Additional expense associated with these warrants will continue to be incurred over the 2 year term of the agreement. For the quarter ended March 31, 2000, we had $990,820 of expense associated with warrants issued to Joseph Stevens & Company as partial compensation for investment banking services which was recorded in full as of December 31, 2000. Compensation expense relating to these investor relations and investment banking services represent a general and administrative expenses.

For the first quarter of 2001, interest and other income was $20,018, compared to $40,190 in the first quarter of 2000. The decrease in interest income is primarily due to the decline in our cash reserves.

Net income applicable to common shares for the quarter ended March 31, 2001, was $855,631 as compared to a net loss applicable to common shares of $2,037,561 for the quarter ended March 31, 2000. This increase in net income applicable to common shares is primarily attributable to a gain on the sale of the assets of our subsidiary, Optex recognized during the first quarter of 2001 in the amount of $2,809,451, partially offset by a distribution to the minority shareholders of Optex of $767,514. (see further discussion of this sale below). In the quarter ended March 31, 2000, we recorded compensation expense of $990,820 relating to stock warrants issued to Joseph Stevens & Co. which did not exist during the current year. Net income (loss) applicable to common shares also included a beneficial conversion on our Series B preferred stock in the amount of $600,000 and a dividend of $167,127 paid upon the repurchase of the outstanding Series B preferred stock recorded during the first quarter of 2001. We also issued preferred stock dividends on our Series A preferred stock for which the estimated fair value of $64,144 and $659,319 was included in the net income (loss) applicable to common shares for the first quarter of 2001 and 2000, 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 and a reduction of the number of preferred shares issued. Going forward, with the termination of our agreement with Bausch & Lomb, we will no longer have the revenue or profits associated with that agreement available to us. For the year ended December 31, 2000, we received $5,169,288 in development revenue from Bausch & Lomb.

2000 Versus 1999

In accordance with a development agreement as amended in September 1999, Bausch & Lomb Surgical paid our subsidiary, Optex, for developing its Catarex technology, plus a profit component. For the year ended December 31, 2000, this agreement provided $5,169,288 of development revenue, and the related cost of development revenue was $4,135,430. For the year ended December 31, 1999, this agreement provided $1,082,510 of development revenue, and the related cost of development revenue was $866,008 which solely represented the activity for the fourth quarter of 1999. On March 2, 2001, Optex sold substantially all of its assets, including those related to the Catarex technology, to Bausch & Lomb. As described above, the development agreement was terminated and we will no longer receive development revenue under that agreement.

Research and development expenditures consist primarily of costs associated with research and development personnel; the cost of operating our research and development laboratories; payments made under our license agreements, sponsored research agreements, research agreements with institutes, and consultants' agreements with its licensors, scientific collaborators, and research institutes; and costs related to patent filings and maintenance. For the year ended December 31, 2000, our research and development expense was $1,130,345 as compared to $1,091,291 for the year ended December 31, 1999. The 1999 expense is presented net of nine months of Bausch & Lomb reimbursements of $1,044,708 received prior to the September 1999 amendment described in the preceding paragraph. This increase was due to increased expenditures for the

year on certain development projects, including the costs associated with the completion of a successful Phase I study for our CT-3 compound during 2000.

During 2000, we made an investment in TeraComm Research, Inc., accounted for under the equity method of accounting, of $1,000,000 cash as well as common stock and a warrant to purchase common stock, together valued at $1,800,000. Of the $2,800,000 purchase price, we expensed $2,653,382 as acquired in-process research

and development, as no capitalizable intangible assets are present at TeraComm, as its product development activity is in the very early stages and has no alternative future use at this time. The TeraComm investment is accounted for in accordance with the equity method of accounting for investments as we continue to have the ability to exert significant influence over TeraComm through our Board seat and other involvement with management.

General and administrative expenses consist primarily of expenses associated with corporate operations, legal, finance and accounting, human resources and other general operating costs. For the year ended December 31, 2000, our general and administrative expense was $2,235,535 as compared to $1,941,425, which is net of Bausch & Lomb reimbursements of $184,360 for the year ended December 31, 1999 received prior to the September 1999 amendment. This increase was due to costs incurred in hiring and relocating executives, an increase in payroll costs over last year, and an increase in fees for professional services attributable to legal filings and due diligence relating to fundraising efforts and certain investments.

In 2000, we had $1,020,128 of expense associated with warrants issued to Joseph Stevens & Company as partial compensation for investment banking services provided by Joseph Stevens & Company during 2000. Compensation expense relating to these investment banking services represents a general and administrative expense.

For the year ended December 31, 2000, our interest and other income was $92,670 compared to $292,630 for the year ended December 31, 1999. This decrease was primarily due to a decline in our cash reserves, which resulted in decreased interest income. For the year ended December 31, 2000, our share of losses of TeraComm amounted to $79,274.

Net loss applicable to common shares for the year ended December 31, 2000, was $6,847,749 as compared to a net loss applicable to common shares of $2,760,881 for the year ended December 31, 1999. This increase in net loss applicable to common shares is primarily attributable to acquired in-process research and development expense relating to our investment in TeraComm of $2,653,382. In the year ended December 31, 2000, we recorded compensation expense of $1,020,865 relating to stock warrants issued to Joseph Stevens & Co. which did not exist during 1999. Net loss applicable to common shares in 2000 also included a dividend paid upon the repurchase of the outstanding Series B preferred stock of $233,757 which was not paid in 1999. We also issued preferred stock dividends on our Series A preferred stock for which the estimated fair value of $811,514 and $314,366 was included in the net loss applicable to common shares for the years ended 2000 and 1999, respectively. The increase in the estimated fair value of these dividends as compared to the prior year is partially a reflection of an increase in our stock price. Going forward, with the termination of our agreement with Bausch & Lomb, described below, we will no

longer have the revenue or profits associated with that agreement available to us. For the year ended December 31, 2000, we received $5,169,288 in development revenue from Bausch & Lomb as compared with $1,082,510 in 1999.

1999 Versus 1998

During 1999, Optex's development agreement with Bausch & Lomb was amended to include a profit component. Fees earned from the date of the amendment are presented in our financial statements as development revenue. Prior to amendment of this agreement in September 1999, reimbursements from Bausch & Lomb, which represented pass-through expenses, were treated as a reduction of expenses and totaled $2,276,579 since the inception of the agreement. Reimbursements made under the agreement in 1999 reduced our research and development expenses by $1,044,708 and general and administrative expenses by $184,360. Net general and administrative expenses for the year ended December 31, 1999, were $1,941,425 as compared to $2,668,508 for the corresponding period in 1998. This decrease was primarily attributable to a general reduction in corporate overhead associated with reduced corporate staffing, patent prosecution fees, advertising, and travel expenses.

Research and development expenses, including license fees, were $1,091,291 for the year ended December 31, 1999, as compared to $3,036,355 for the corresponding period in 1998. These amounts are net of reimbursements from Bausch & Lomb of $1,044,708 in 1999 and $899,936 in 1998. The decrease in research and development expenses in 1999 was attributable to reduced research and development activities for all of our technologies, except for the Catarex technology being developed by Optex, with respect to which increased development work was offset by higher reimbursement from Bausch & Lomb. Termination of the license

agreement between Channel and the Trustees of the University of Pennsylvania contributed to reduced research and development activities.

Interest income in 1999 was $292,630 compared to $451,335 in 1998. The decrease was attributable to reduced investment amounts.

Net loss applicable to common shares for the year ended December 31, 1999, was $2,760,881 as compared to a net loss applicable to common shares of $4,381,779 for the year ended December 31, 1998. This decrease in net loss is primarily attributable to an imputed preferred stock dividend on our Series A preferred stock of 1,628,251 in 1998 compared to a preferred stock dividend on our Series A preferred stock of $314,366 in 1999. In addition, research and development expenses decreased by $1,945,064 from 1998 to 1999 and general and administrative expenses decreased by 727,083 from 1998 to 1999 as a result of our efforts to scale back on these expenses in 1999. This decrease in expenses is partially offset by $2,500,000 of license revenue which was recognized in 1998 from our agreement with Bausch and Lomb. This is compared with total revenue net of cost of development for 1999 of $293,571 in 1999 subsequent to the September 1999 amendment with Bausch & Lomb.

LIQUIDITY AND CAPITAL RESOURCES

From inception to March 31, 2001, we incurred an accumulated deficit of $23,306,559, and we expect to continue to incur additional losses through the year ending December 31, 2001 and for the foreseeable future. The loss has been

incurred through primarily research and development activities related to our various technologies under our control.

Pursuant to an asset purchase agreement dated January 31, 2001, among Bausch & Lomb, 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 Catarex technology. Upon the sale, Atlantic and Optex have no further obligations to Bausch & Lomb. The purchase price was $3 million paid at closing (approximately $564,000 of which was distributed to the minority shareholders). In addition, Optex is entitled to receive additional consideration, namely $1 million once Bausch & Lomb receives regulatory approval to market the Catarex 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 Catarex 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 Catarex technology at fair value. Upon the sale of Optex assets, Bausch & Lomb's development agreement with Optex was terminated. Upon closing of the asset purchase agreement Optex agreed to forgo future contingent payments in exchange for the receipt of a one-time $3 million payment and the same potential for future royalties. As a result of this transaction, we recorded a gain on the sale of Optex assets of $2,809,451. Pursuant to our agreement with the minority shareholders of Optex, we made a profit distribution of $767,514 representing the minority shareholders' percentage of the cumulative profit from the Bausch & Lomb cost plus 25 percent agreement up to and including proceeds from the sale of Optex' assets. On May 9, 2001, the Company's Board of Directors, after consideration of all the relevant facts and circumstances including recommendations of counsel, agreed to authorize a payment of $240,000 in aggregate to three former employees of Optex (who are now 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. We did not believe these monies were due pursuant to the terms of the transaction itself and 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 potential future royalties from Bausch & Lomb and the importance of these individuals to the ongoing development activities. The payment will be recorded as an expense in the June 30, 2001 statement of operations.

On September 28, 2000, pursuant to a convertible preferred stock and warrants purchase agreement (the purchase agreement), we issued to BH Capital Investments, L.P. and Excalibur Limited Partnership (together, the Investors) for a purchase price of $2,000,000, 689,656 shares of our Series B convertible preferred stock (the Series B

preferred stock) and warrants to purchase 134,000 shares of our common stock. Half of the shares of Series B preferred stock (344,828 shares) and warrants to purchase half of the shares of common stock (67,000 shares) were held in escrow, along with half of the purchase price.

On December 4, 2000, Atlantic and the Investors entered into a stock repurchase agreement (the stock repurchase agreement) pursuant to which we repurchased from the Investors for $500,000 137,930 shares of Series B preferred

stock, and agreed to the release from escrow to the Investors of the $1,000,000 purchase price of the 344,828 shares of Series B preferred stock held in escrow. We also allowed the Investors to keep all of the warrants issued under the purchase agreement and issued to the Investors warrants to purchase a further 20,000 shares of our common stock at the same exercise price. On January 19, 2001, 41,380 shares of Series B preferred stock were converted by the Investors into 236,422 shares of our common stock. On March 9, 2001, Atlantic and the Investors entered into a second stock repurchase agreement (stock repurchase agreement no. 2). Pursuant to stock repurchase agreement no. 2, we repurchased from the Investors, for an aggregate purchase price of $617,067, all 165,518 shares of our Series B preferred stock held by the Investors. The repurchase price represented 125% of the purchase price originally paid by the investors for the repurchased shares, as well as an amount equal to the annual dividend on the Series B preferred stock at a rate per share of 8% of the original purchase price. The repurchased shares constitute all remaining outstanding shares of Series B preferred stock; we have cancelled those shares.

As of May 7, 2001, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to $6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. (This agreement replaces an earlier agreement we entered into with Fusion Capital on March 16, 2001.) The receipt of funds under this agreement will commence upon effective registration and certain other conditions which are targeted for June 2001. The purchase price of the shares will be equal to the lesser of (1) $20.00 or (2) a price based upon the future market price of the common stock, without any fixed discount to the market price. A material contingency that may affect our operating plans and ability to raise funds is our stock price. If our stock price remains at current levels, we will be limited in the amount of funds we will be able to draw as defined by the Fusion Capital agreement. As the Fusion Capital agreement is currently structured, we do not have a guarantee that we will be able to draw any funds. A $120,000 finders fee relating to this transaction was paid to Gardner Resources, Ltd.

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 preclinical 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; status of competitors; our ability to establish collaborative arrangements with other organizations; and our need to purchase additional capital equipment.

At March 31, 2001, we had $2,581,497 in cash and cash equivalents and working capital of $1,831,571. We anticipate that our current resources will be sufficient to finance our currently anticipated needs for operating and capital expenditures for at least the next twelve months. In addition, we will attempt to generate additional capital through a combination of collaborative agreements, strategic alliances, and equity and debt financing. However, we can give no assurance that we will be able to obtain additional capital through these sources or upon terms acceptable to us.

We have the following short term and long term liquidity needs. Our cash utilized for operations for the next year is expected to be approximately $200,000 per month. Currently, these expected operating expenses include approximately $70,000 per month for research and pre-clinical development expenses and approximately $130,000 for general and administrative expenses. Based on our cash position of $2,581,497 at March 31, 2001, we will either have to raise additional funds within the next twelve months to fund our current

spending requirements or we will have to reduce or eliminate the planned levels of development activities. Since we do not have significant fixed cash commitments, we have the option of significantly cutting or delaying our development activities as may be necessary. To meet these needs in the short term, we expect to begin drawing funds in the amount of $200,000 per month from Fusion Capital starting in June 2001, once we have an effective registration. If our agreement with Fusion Capital is not finalized, or if we are unable to draw funds from Fusion Capital, we will seek alternative

funding sources. These funding sources include seeking other equity financing and working toward licensing CT-3 later in 2001.

A material contingency that may affect our operating plans and ability to raise funds is our stock price. If our stock price remains at current levels, we will be limited in the amount of funds we will be able to draw on under the Fusion Capital agreement. As the Fusion Capital agreement is currently structured, it is not guaranteed that we will be able to draw any funds.

In addition, the common stock purchase agreement with Fusion Capital provides that until it terminates, we may not issue any variable-priced equity or variable-priced equity-like securities without Fusion Capital's prior written consent. This may impede our ability to raise additional funding.

We are at risk of being delisted from the Nasdaq SmallCap Market. As of March 20, 2001, we had the thirtieth consecutive business day that the minimum bid price of our common stock was less than $1.00. This constituted a failure on our part to meet Nasdaq's continued inclusion requirement for minimum bid price. On March 22, 2001, Nasdaq notified us of this failure, and we had a period of 90 calendar days from that notice to comply with the continued inclusion standard for minimum bid price. To do so, we would have had to meet that standard for a minimum of 10 consecutive business days during the 90-day compliance period. We failed to do so, and on June 21, 2001, Nasdaq notified us that we would be delisted on June 29, 2001, unless by June 28, 2001, we request a hearing before Nasdaq's Listing Qualifications Panel. On June 28th, we requested a hearing, and a hearing has been scheduled for August 9, 2001. Our hearing request will stay the delisting of our common stock pending the Panel's decision. The hearing will be scheduled within 45 days of the date we file our request. During the hearing, we intend to request, based on our particular circumstances, an extension of the time allotted to raise our share price. There can be no assurance the Panel will grant our request. Regarding the consequences of our common stock being delisted, see "Risk Factors--Our Securities."

On April 18, 2001, Nasdaq advised us that we were not in compliance with the requirement that we have at least $2,000,000 of net tangible assets or $500,000 net income. On May 21, 2001, Nasdaq informed us that based on its review of our quarterly report on Form 10-QSB for the quarter ended March 31, 2001, we are now in compliance with that requirement.

THE FINANCING TRANSACTION

General

As of May 7, 2001, we entered into a common stock purchase agreement with Fusion Capital pursuant to which Fusion Capital agreed to purchase up to $6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. (This agreement replaced a common stock purchase agreement we entered into with Fusion Capital on March 16, 2001, which has been terminated.) The purchase price of the shares will be based upon the future market price of the common stock, without any fixed discount to the market price.

Purchase of Shares Under the Common Stock Purchase Agreement

Under the common stock purchase agreement, Fusion Capital will purchase a specified dollar amount of our common stock. Subject to the termination rights described below, each trading day during the term of the agreement, Fusion Capital will purchase $10,000 of our common stock. We may decrease this amount at any time. If our stock price equals or exceeds $5.00 per share for five consecutive trading days, we have the right to increase this daily amount. Upon prior written notice, we have the right to suspend any purchases of common stock by Fusion Capital. The purchase price per share is equal to the lesser of:

- the lowest sale price of our common stock on the day Fusion Capital purchases shares of our common stock; or

- the average of the 3 lowest closing bid prices of our common stock during the 12 consecutive trading days prior to the date Fusion Capital purchases shares of our common stock.

In order to ensure that we remain in compliance with the Nasdaq Marketplace Rules, the common stock purchase agreement provides that the purchase price per share may not be less than $0.68, which was the closing sale price of our common stock on the trading day immediately preceding the date of the common stock purchase agreement.

The purchase price will be adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the ten trading days in which the closing bid price is used to compute the purchase price. Fusion Capital may not, however, purchase shares of common stock under the common stock purchase agreement if Fusion Capital or its affiliates would beneficially own more than 4.9% of our then aggregate outstanding common stock immediately after the proposed purchase. If the 4.9% limitation is ever reached, we have the option to increase this limitation to 9.9%. If the 9.9% limitation is ever reached, this will not limit Fusion Capital's obligation to fund the monthly purchase amount of $200,000 or Fusion Capital's obligation to purchase up to the full remaining portion of the $6.0 million if our stock price equals or exceeds $5.00 per share.

The following table sets forth the number of shares of our common stock that we would sell to Fusion Capital under the common stock purchase agreement

at varying purchase prices:

Assumed Purchase Price	No. of shares issuable (max. 2,400,000)(1)	Percentage of shares outstanding after issuance(2)
$1.00	2,400,000	31.3%
$2.00	2,400,000	31.3%
$3.00	2,000,000	28.3%
$5.00	1,200,000	21.5%
$10.00	600,000	15.4%
$15.00	400,000	13.2%
$20.00	300,000	12.0%

(1) Calculated based on Fusion Capital's agreement to purchase up to $6.0 million of our common stock. The limit of 2,400,000 represents the shares offered in this prospectus, excluding the 600,000 shares we have issued to Fusion Capital as a commitment fee. If our stock price level would require more than 2,400,000 shares to be issuable to Fusion Capital under the common stock purchase agreement, we have the right, and currently intend, to terminate the agreement without any payment or liability to Fusion Capital.

(2) Based on 6,571,447 shares outstanding on May 7, 2001, plus 600,000 shares of common stock issued to Fusion Capital as a commitment fee and the number of shares issuable at the corresponding assumed purchase price set forth in the adjacent column.

Our Right to Prevent Purchases

We have the unconditional right to suspend purchases at any time on one trading day's notice. Any such suspension could be effective until we revoke it. If we need cash proceeds of sales under the common stock purchase agreement for working capital or other business purposes, we do not intend to suspend purchases in this manner.

Our Right to Increase or Decrease the Amount to Be Purchased by Fusion Capital

We have the unconditional right to decrease the daily amount to be purchased by Fusion Capital at any time for any reason effective upon one trading day's notice. We also have the right to increase the daily purchase amount at any time for any reason, except that we may not increase the daily purchase amount above $10,000 unless our stock price has been above $5.00 per share for five consecutive trading days. For any trading day that the sale price of our common stock is below $5.00, the daily purchase amount will not be greater than $10,000.

Events of Default

Generally, Fusion Capital may terminate the common stock purchase agreement without any liability or payment to us upon the occurrence of any of the following events of default:

- if for any reason the shares offered by this prospectus cannot be sold pursuant to this prospectus for a period of ten consecutive trading days or for more than an aggregate of 30 trading days in any 365-day period;
- suspension by the Nasdaq SmallCap Market of our common stock from trading for a period of ten consecutive trading days or for more than

an aggregate of 30 trading days in any 365-day period;

- our failure to satisfy any listing criteria of the Nasdaq SmallCap Market for a period of 30 consecutive trading days;

- notice from us or our transfer agent to the effect that either of us intends not to comply with a proper request for purchase under the common stock purchase agreement of shares of common stock;
- our failure to confirm to the transfer agent any purchase by Fusion Capital of shares of our common stock under the common stock purchase agreement;
- failure of the transfer agent to issue any shares of our common stock purchased by Fusion Capital under the common stock purchase agreement;
- any material breach by us of the representations or warranties or covenants contained in the common stock purchase agreement or any related agreements which has or which could have a material adverse affect on us, subject to a cure period of ten trading days;
- a default by us of any payment obligation in excess of $1.0 million; or
- our voluntary or involuntary participation in insolvency or bankruptcy proceedings.

Our Termination Rights

We have the right to terminate the common stock purchase agreement at any time for any reason at no cost by delivering written notice to Fusion Capital. A termination notice will be effective one trading day after Fusion Capital receives it.

No Short-Selling or Hedging by Fusion Capital

Fusion Capital has agreed that neither it nor any of its affiliates will engage in any direct or indirect short-selling or hedging of our common stock during any time prior to the termination of the common stock purchase agreement.

Additional Shares Issued to Fusion Capital

Under the terms of the May 7, 2001 common stock purchase agreement with Fusion Capital, in connection with its initial purchase of shares under the agreement, we issued to Fusion Capital 600,000 shares of our common stock as a commitment fee. Unless an event of default occurs, Fusion Capital must hold these shares until the common stock purchase agreement has been terminated.

No Variable Priced Financings

Until the termination of the common stock purchase agreement, we have agreed not to issue, or enter into any agreement with respect to the issuance of, any variable-priced equity or variable-priced equity-like securities unless we have obtained Fusion Capital's prior written consent.

USE OF PROCEEDS

We will not receive any proceeds from any sales of the shares by the selling stockholders. We will, however, receive up to $6.0 million of proceeds from the sale of shares of our common stock to Fusion Capital under our common stock purchase agreement with them. We plan on using those proceeds for working capital and general corporate purposes.

SELLING STOCKHOLDER

The selling stockholder is Fusion Capital Fund II, LLC ("Fusion Capital"), an Illinois limited liability company located in Chicago, Illinois. Fusion Capital is an investor in publicly traded companies. The selling stockholder has not had any position, office or other material relationship with us within the past three years. Steven Martin and Joshua Scheinfeld will hold investment and voting control over any shares of our common stock owned by Fusion Capital.

We estimate the maximum number of shares we will sell to Fusion Capital under the common stock purchase agreement will be 2,400,000 shares, assuming Fusion Capital purchases all $6.0 million worth of common stock. We have the right under certain conditions to suspend or terminate the common stock purchase agreement without any payment or liability to Fusion Capital. We have also issued Fusion Capital 600,000 shares as a commitment fee pursuant to the terms of the common stock purchase agreement. Unless an event of default occurs, these shares must be held by Fusion Capital until the earlier of the termination of the common stock purchase agreement or 30 months from the date of the common stock purchase agreement. This prospectus relates to the offer and sale from time to time by Fusion Capital of these shares. None of the shares offered in this prospectus were issued or outstanding on the date of this prospectus, and the selling stockholder does not otherwise own any shares of our common stock. The common stock purchase agreement is described in detail under the heading "The Financing Transaction."

Effect of Performance of the Common Stock Purchase Agreement on Us and Our Stockholders

All shares registered pursuant to the common stock purchase agreement will be freely tradable. We expect that they will be sold over a period of up to 30 months from the date of this prospectus. Depending upon market liquidity at the time, sale of shares under this offering could cause the trading price of our common stock to decline and to be highly volatile. Fusion Capital may ultimately purchase all of the shares of common stock issuable under the common stock purchase agreement, and it may sell all of the shares of common stock it acquires upon purchase. Therefore, the purchase of shares under the common stock purchase agreement may result in substantial dilution to the interests of other holders of our common stock. However, we have the right to block purchases under the common stock purchase agreement and to require termination of the common stock purchase agreement in some cases.

Our Ability to Suspend Purchases

The common stock purchase agreement provides that we may at any time suspend purchases under the common stock purchase agreement. To the extent we

need to use the cash proceeds of sales of common stock issuable under the common stock purchase agreement for working capital or other business purposes, we do not intend to suspend purchases under the common stock purchase agreement.

Holdings of Fusion Capital Upon Termination of the Offering

Notwithstanding certain limitations on the ability of Fusion Capital to purchase shares as set forth in the common stock purchase agreement, assuming the purchase of 2,400,000 shares by Fusion Capital, together with the 600,000 shares delivered as a commitment fee, Fusion Capital would beneficially own 31.3% of our outstanding stock as of May 7, 2001. To the extent we need to use the cash proceeds of sales of common stock issuable under the common stock purchase agreement for working capital or other business purposes, we do not intend to restrict purchases under the common stock purchase agreement. Because the Fusion Capital may sell all, some, or none of the common stock offered by this prospectus, we cannot estimate the amount of common stock that will be held by Fusion Capital upon termination of the offering.

PLAN OF DISTRIBUTION

The common stock offered by this prospectus is being offered by the selling stockholder, Fusion Capital Fund II, LLC. The common stock may be sold or distributed from time to time by the selling stockholder directly to one or more purchasers or through brokers, dealers, or underwriters who may act solely as agents or may acquire the common stock as principals, at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. The sale of the common stock offered by this prospectus may be effected in one or more of the following methods:

- ordinary brokers' transactions;
- transactions involving cross or block trades or otherwise on the Nasdaq SmallCap Market;

- purchases by brokers, dealers, or underwriters as principal and resale by these purchasers for their own accounts pursuant to this prospectus; o "at the market" to or through market makers or into an existing market for the common stock;
- in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents;
- in privately negotiated transactions; or
- any combination of the foregoing.

See the table under the heading "The Financing Transaction" for the number of shares of our common stock that would be sold to Fusion Capital upon our sale of common stock under the common stock purchase agreement at varying purchase prices.

We will file, during any period during which we are required to do so under our registration rights agreement with Fusion Capital, one or more post-effective amendments to the registration statement of which this prospectus is a part to describe any material information with respect to the plan of distribution not previously disclosed in this prospectus or any material change to such information in this prospectus.

In order to comply with the securities laws of certain states, if applicable, in those states the shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, the shares may not be sold unless they have been registered or qualified for sale in the state or an exemption from the registration or qualification requirement is available and complied with.

Brokers, dealers, underwriters, or agents participating in the distribution of the shares as agents may receive compensation in the form of commissions, discounts, or concessions from the selling stockholder and/or purchasers of the common stock for whom the broker-dealers may act as agent, or to whom they may sell as principal, or both. The compensation paid to a particular broker-dealer may be less than or in excess of customary commissions.

The selling stockholder is an "underwriter" within the meaning of the Securities Act. Any broker-dealers who act in connection with the sale of the shares hereunder may be deemed to be "underwriters" within the meaning of the Securities Act, and any commissions they receive and proceeds of any sale of the shares may be deemed to be underwriting discounts and commissions under the Securities Act.

Neither we nor the selling stockholder is currently able to estimate the amount of compensation that any agent will receive. We know of no existing arrangements between any selling stockholder and any other stockholder, broker, dealer, underwriter, or agent relating to the sale or distribution of the shares. At the time a particular offer of shares is made, a prospectus supplement, if required, will be distributed that will set forth the names of any agents, underwriters, or dealers and any compensation from the selling stockholder and any other required information.

We will pay all of the expenses incident to the registration, offering, and sale of the shares to the public other than commissions or discounts of underwriters, broker-dealers, or agents. We have also agreed to indemnify the selling stockholder and related persons against specified liabilities, including liabilities under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of Atlantic, we have been advised that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Fusion Capital has agreed not to engage in any direct or indirect short selling or hedging of our common stock during the term of the common stock purchase agreement.

We have advised the selling stockholder that while it is engaged in a distribution of the shares included in this prospectus it is required to comply with Regulation M promulgated under the Securities Exchange Act of 1934,

as amended. With certain exceptions, Regulation M precludes the selling stockholder, any affiliated purchasers, and any broker-dealer or other person who participates in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase, any security that is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares offered hereby this prospectus.

This offering will terminate on the date on which all shares offered by this prospectus have been sold by the selling stockholder.

LEGAL PROCEEDINGS

There are no current or pending legal proceedings to which Atlantic or any of its subsidiaries is a party or to which any of their properties is subject other than the following:

Claim for Arbitration Brought by Cleveland Clinic Foundation

Atlantic's subsidiary, Gemini, was party to an exclusive worldwide sublicense from the Cleveland Clinic Foundation relating to 2-5A chimeric antisense technology and its use for selective degradation of targeted RNA. On May 8, 2000, the Cleveland Clinic Foundation filed a claim for arbitration before the American Arbitration Association to terminate this sublicense, claiming that Gemini had breached the sublicense by failing to fulfill its obligations under the sublicense. Pursuant to an asset purchase agreement dated April 23, 2001, among the Cleveland Clinic Foundation and its new affiliate IFN, Inc., Atlantic and Gemini, on May 4, 2001, Gemini sold to IFN substantially all its assets (mostly intangible assets with no book value), including all those related to the 2-5A antisense enhancing technology in the second quarter of 2001. Upon the closing of this transaction, the Cleveland Clinic withdrew its outstanding arbitration demand against Gemini and Atlantic, with prejudice. Each party is obligated to pay its own costs and attorney's fees related thereto. For additional information, please see "Description of Business--Atlantic and Its Subsidiaries--Gemini and the 2-5A Antisense Technology."

Directors, executive officers, promoters and control persons

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

A. Joseph Rudick, M.D., 44, has been a director of Atlantic since May 1999. He was also the Chief Executive Officer of Atlantic from April 10, 2000 until February 15, 2001, the President of Atlantic from May 1999 until April 3, 2000, and was a founder of Atlantic and two of its majority-owned subsidiaries, Optex and Channel. Dr. Rudick served as a business consultant to Atlantic from January 1997 until November 1998. From June 1994 until November 1998, Dr. Rudick was a Vice President of Paramount Capital, Inc. ("Paramount"), an investment bank specializing in the biotechnology and biopharmaceutical industries. Since 1988, he has been a Partner of Associate Ophthalmologists P.C., a private ophthalmology practice located in New York, and from 1993 to 1998 he served as a director of Healthdesk Corporation, a publicly-traded medical information company of which he was a co-founder. Dr. Rudick earned a B.A. in Chemistry from Williams College in 1979 and an M.D. from the University of Pennsylvania in 1983.

Steve H. Kanzer, C.P.A., Esq., 37, has been a director of Atlantic since its inception in 1993. Mr. Kanzer currently is a member of the Audit Committee and the Compensation Committee. Since December 1997, Mr. Kanzer has been Chief Executive Officer of a biotechnology holding company, Corporate Technology Development, Inc., based in Miami. From 1992 until December 1998, Mr. Kanzer was a founder and Senior Managing Director of Paramount, and Senior Managing Director--Head of Venture Capital of Paramount Capital Investments, LLC ("Paramount Investments"), a biotechnology and biopharmaceutical venture capital and merchant banking firm that is associated with Paramount. From 1993 until June 1998, Mr. Kanzer was a founder and a member of the board of directors of Boston Life Sciences, Inc., a publicly-traded pharmaceutical research and development company. Mr. Kanzer is a founder and Chairman of the Board of Discovery Laboratories, Inc., and a member of the board of directors of Endorex Corp., two publicly-traded pharmaceutical research and development

companies. Prior to joining Paramount, Mr. Kanzer was an attorney with Skadden, Arps, Slate, Meagher & Flom LLP in New York, New York from September 1988 to October 1991. He received his J.D. from New York University School of Law in 1988 and a B.B.A. in Accounting from Baruch College in 1985. In his capacity as employee and director of other companies in the venture capital field, Mr. Kanzer is not required to present to Atlantic opportunities that arise outside the scope of his duties as a director of Atlantic.

Frederic P. Zotos, Esq., 35, has been a director of Atlantic since May 1999, President of Atlantic since April 3, 2000, and Chief Executive Officer since February 15, 2001. From June 1999 until April 2000, Mr. Zotos was Director of Due Diligence and Internal Legal Counsel of Licent Capital, LLC, an intellectual property royalty finance company located in Jericho, New York. From September 1998 until June 1999, Mr. Zotos practiced as an independent patent attorney and technology licensing consultant in Cohasset, Massachusetts. From December 1996 until August 1998, Mr. Zotos was Assistant to the President and Patent Counsel of Competitive Technologies, Inc., a publicly-traded technology licensing agency located in Fairfield, Connecticut. From July 1994 until November 1996, Mr. Zotos was an Intellectual Property Associate of Pepe & Hazard, a general practice law firm located in Hartford, Connecticut. He is Co-Chair of the Fairfield-Westchester and Chair of the New York City Chapters of the Licensing Executive Society, and a member of its Financial Markets Committee. Mr. Zotos is a registered patent attorney with the United States Patent and Trademark Office, and is also registered to practice law in Massachusetts and Connecticut. He earned a B.S. in Mechanical Engineering from Northeastern University in 1987, a joint J.D. and M.B.A. degree from Northeastern University in 1993, and successfully completed an M.S. in Electrical Engineering Prerequisite Program from Northeastern University in 1994.

Nicholas J. Rossettos, C.P.A., 35, has been Chief Financial Officer since April 2000. Mr. Rossettos' most recent position was as Manager of Finance for Centerwatch, a pharmaceutical trade publisher headquartered in Boston, MA that is a wholly owned subsidiary of Thomson CP headquartered in Toronto, Canada. Prior to that, he was Director of Finance and Administration for EnviroBusiness, Inc., an environmental and technical management-consulting firm headquartered in Cambridge, MA. He holds an A.B. in Economics from Princeton University and a M.S. in Accounting and M.B.A. from Northeastern University.

Peter O. Kliem, 62, has been a Director of Atlantic since March 21, 2000 and is a member of the Compensation Committee. Mr. Kliem is a co-founder, President and COO of Enanta Pharmaceuticals, a Boston based biotechnology start-up. Prior to this start-up, he worked with Polaroid Corporation for 36 years, most recently in the positions of Senior Vice President, Business Development, Senior VP, Electronic Imaging and Senior VP and Director of Research & Development. During his tenure with Polaroid, he initiated and executed major strategic alliances with corporations in the U.S., Europe, and the Far East. Mr. Kliem also introduced a broad range of innovative products such as printers, lasers, CCD and CID imaging, fiber optics, flat panel display, magnetic/optical storage and medical diagnostic products in complex technological environments. He serves as trustee and vice president of the Boston Biomedical Research Institute and served as Chairman of PB Diagnostics. He is a member of the board of directors of the privately held company, Corporate Technology Development, Inc. In addition, he served as Industry Advisor to TVM-Techno Venture Management. Mr. Kliem earned his M.S. in chemistry from Northeastern University.

There are no family relationships among the executive officers or directors of Atlantic.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us with respect to the beneficial ownership of common stock as of May 7, 2001, by (1) all persons who are beneficial owners of 5% or more of our common stock, (2) each director and nominee, (3) the Named Officers in the Summary Compensation Table above, and (4) all directors and executive officers as a group. We do not know of any person who beneficially owns more than 5% of the Series A preferred stock and none of our directors or the Named Officers owns any shares of Series A preferred stock. Consequently, the following table does not contain information with respect to the Series A preferred stock.

The number of shares beneficially owned is determined under rules promulgated by the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under those rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment

power and also any shares which the individual has the right to acquire within 60 days of May 3, 2001, through the exercise or conversion of any stock option, convertible security, warrant or other right. Including those shares in the tables does not, however, constitute an admission that the named stockholder is a direct or indirect beneficial owner of those shares. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares that power with that person's spouse) with respect to all shares of capital stock listed as owned by that person or entity. The common stock represented here includes the common stock that the beneficial holders would directly possess if they converted all shares of Series A Preferred Stock held by them.

NAME AND ADDRESS	NUMBER OF SHARES	% OF TOTAL SHARES OUTSTANDING (1)
CERTAIN BENEFICIAL HOLDERS:		
Lindsay A. Rosenwald, M.D.(2) 787 Seventh Avenue New York, NY 10019	499,298	7.6%
VentureTek, L.P.(3) 40 Exchange Place 20th Floor New York, NY 10005	438,492	6.7%
MANAGEMENT:		
A. Joseph Rudick, M.D.(4)	130,610	1.9%
Frederic P. Zotos, Esq.(5)	158,666	2.4%
Steve H. Kanzer, C.P.A., Esq.(6)	60,000	*
Peter O. Kliem(7)	38,500	*
Nicholas J. Rossettos, C.P.A.(8)	25,000	*
All current executive officers and directors as a group (5 persons)	412,499	6.3%

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* Less than 1.0%

(1) Percentage of beneficial ownership is calculated assuming 6,571,447 shares of common stock were outstanding on May 7, 2001.

(2) Includes 344,508 shares of common stock and 154,410 shares of common stock issuable upon conversion of 47,202 shares of Series A preferred stock within 60 days of May 3, 2001. Also includes 190 shares of common stock held by June Street Corporation and 190 shares of common stock held by Huntington Street Corporation. Dr. Rosenwald is the sole proprietor of both June Street Corporation and Huntington Street Corporation.

(3) The general partner of VentureTek, L.P. is Mr. C. David Selengut. Mr. Selengut may be considered a beneficial owner of shares owned by VentureTek, L.P. by virtue of his authority as general partner to vote and dispose of those shares. VentureTek, L.P. is a limited partnership, the limited partners of which

include Dr. Rosenwald's wife and children, and sisters of Dr.

Rosenwald's wife and children. Dr. Rosenwald disclaims beneficial ownership of those shares.

(4) Represents options exercisable within 60 days of May 3, 2001. 50,000 shares of common stock are exercisable pursuant to stock options granted under the plan on April 12, 2000 for 100,000 shares, of which 25% or 25,000 shares were exercisable on April 3, 2000, then an additional 25% annually thereafter; an additional 12,500 shares are exercisable pursuant to stock options granted on April 12, 2000 for 25,000 shares, of which 25% or 6,250 were exercisable immediately, then an additional 25% annually thereafter; an additional 25,000 shares are exercisable pursuant to stock options granted October 21, 1999, all of which were immediately exercisable; an additional 2,000 shares are exercisable pursuant to stock options granted on September 23, 1999, all of which were exercisable on September 23, 2000; an additional 25,000 shares are exercisable pursuant to stock options granted on August 9, 1999 for 50,000 shares, of which 25% or 12,500 were exercisable on issuance, then an additional 25% annually thereafter; an additional 6,666 shares are exercisable pursuant to stock options granted on May 28, 1999 for 10,000 shares, exercisable in three equal amounts starting one year from grant date; and an additional 9,444 shares are exercisable pursuant to stock options granted on August 7, 1998 for 10,000 shares, of which one third were exercisable after one year, with the remainder exercisable monthly (or 277.79 per month) over two years. Does not include 50,000 shares exercisable pursuant to stock options granted on August 9, 1999, all of which would have been exercisable upon the sale of Optex on January 31, 2001, because we rescinded this grant in the 2000 fiscal year in order to correct the grant of stock options to Dr. Rudick in the 1999 fiscal year above the amount permitted by the stock option plan for that year.

(5) Represents options exercisable within 60 days of May 3, 2001. 50,000 shares of common stock are exercisable pursuant to stock options granted on April 12, 2000 for 100,000 shares, of which 25% or 25,000 shares were exercisable on issuance, then an additional 25% annually thereafter; an additional 75,000 shares are exercisable pursuant to stock options granted on April 12, 2000 for 150,000, of which 25% or 37,500 were exercisable on issuance, then an additional 25% annually thereafter; an additional 25,000 shares are exercisable pursuant to stock options granted October 21, 1999, all of which were immediately exercisable; an additional 2,000 shares are exercisable pursuant to stock options granted September 23, 1999 for 2,000 shares, all of which were exercisable after one year; and an additional 6,666 shares are exercisable pursuant to stock options granted May 28, 1999 for 10,000 shares, exercisable in three equal annual amounts starting one year from grant date.

(6) Represents options exercisable within 60 days of May 3, 2001. 25,000 shares are exercisable pursuant to stock options granted on September 29, 2000, all of which were immediately exercisable; an additional 2,000 shares are exercisable pursuant to stock options granted on September 29, 2000, all of which were immediately exercisable; an additional 25,000 shares are exercisable pursuant to stock options granted on October 21, 1999, all of which were immediately exercisable; an additional 2,000 shares are exercisable pursuant to stock options granted September 23, 1999, all of which were exercisable on September 23, 2000; an additional 2,000 shares are exercisable pursuant to stock options granted August 28, 1998; an additional 2,000 shares are exercisable pursuant to stock options granted on June 17, 1997; and an additional 2,000 shares are exercisable pursuant to stock options granted on July 24, 1996.

(7) Represents options exercisable within 60 days of May 3, 2000. 25,000 shares of common stock are exercisable pursuant to stock options granted September 29, 2000, all of which were immediately exercisable; an

additional 2,000 shares are exercisable pursuant to stock options granted September 29, 2000, all of which were immediately exercisable; and an additional 11,500 shares are exercisable pursuant to stock options for 23,000 shares granted on April 6, 2000, of which 25% or 5,570 were exercisable on issuance, and then an additional 25% annually thereafter.

(8) Represents options exercisable within 60 days of May 3, 2001. 25,000 shares of common stock are exercisable pursuant to stock options for 50,000 shares granted April 4, 2000, of which 25% or 12,500 were exercisable on issuance, and then an additional 25% annually thereafter.

Description of securities

General

Our certificate of incorporation authorizes us to issue 50,000,000 shares of common stock and 10,000,000 shares of preferred stock. Of the authorized preferred stock, 1,375,000 shares have been designated Series A convertible preferred stock and 1,647,312 shares have been designated Series B convertible preferred stock. As of May 7, 2001, 6,571,447 shares of our common stock were issued and outstanding, 329,256 shares of our Series A preferred stock were issued and outstanding, and no shares of our Series B preferred stock were issued and outstanding.

Common Stock

Holders of our common stock are entitled to one vote for each share on all matters to be voted on by our stockholders. Holders of our common stock have no cumulative voting rights. They are entitled to share ratably any dividends that may be declared from time to time by the board of directors in its discretion from funds legally available for dividends. Holders of our common stock have no preemptive rights to purchase our common stock. There are no conversion rights or sinking fund provisions for the common stock.

Our common stock is listed on the Nasdaq SmallCap Market.

Series A Preferred Stock

Holders of shares of our Series A preferred stock can convert each share into 3.27 shares of our common stock without paying us any cash. The conversion price of shares of Series A preferred stock is $3.06 per share of common stock. Both the conversion rate and the conversion price may be adjusted in favor of holders of shares of Series A preferred stock upon certain triggering events.

On matters to be voted on by our stockholders, holders of shares of Series A preferred stock are entitled to the number of votes equal to the number of votes that could be cast in such vote by a holder of the common stock into which those shares of Series A preferred stock are convertible on the record date for that vote, or if no record date has been established, on the date that vote is taken. So long as at least 50% of the shares of Series A preferred stock are outstanding, the affirmative vote or consent of the holders of at least 66.67% of all outstanding Series A preferred stock voting separately as a class is necessary to effect certain actions, including, but not limited to, declaration of dividends or distribution on any of our securities other than the Series A preferred stock pursuant to the provisions of the certificate of

designations of the Series A preferred stock and approval of any liquidation, dissolution or sale of substantially all of our assets. Currently there are outstanding fewer than 50% of the shares of Series A preferred stock outstanding.

Each February 7 and August 7 we are obligated to pay dividends, in arrears, to the holders of shares of Series A preferred stock, and the dividends consist of 0.065 additional shares of Series A preferred stock for each outstanding share of Series A preferred stock.

If we are liquidated, sold to or merged with another entity (and we are not the surviving entity after the merger), we will be obligated to pay holders of shares of Series A preferred stock a liquidation preference of $13.00 per share before any payment is made to holders of shares of our common stock.

The holders of shares of Series A preferred stock have rights in addition to those summarily described. A complete description of the rights of the Series A preferred stock is contained in the certificate of designations of the Series A preferred stock filed with the Delaware Secretary of State.

Series B Preferred Stock

We are currently authorized to issue 1,647,312 shares of Series B preferred stock, with such voting rights, designations, preferences, limitations and relative rights as are contained in the certificate of designations of the

Series B preferred stock, as amended, filed with the Secretary of State of the State of Delaware. Currently there are no shares of Series B preferred stock outstanding.

EXPERTS

The consolidated financial statements of Atlantic (a development stage company) and its subsidiaries as of December 31, 2000 and 1999 and for each of the years in the three-year period ended December 31, 2000, and for the period from June 13, 1993 (inception) to December 31, 2000, have been included herein and in this registration statement in reliance upon the report of KPMG LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

Certain legal matters