ATHEROGENICS INC
Form 10-Q
August 13, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended June 30, 2003

Commission File No. 0-31261

# ATHEROGENICS, INC.

(Exact name of registrant as specified in its charter)

| **Georgia** | **58-2108232** |
|---|---|
| (State of incorporation) | (I.R.S. Employer Identification Number) |

**8995 Westside Parkway, Alpharetta, Georgia 30004**

(Address of registrant s principal executive offices, including zip code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No o

As of August 8, 2003, there were 36,533,448 shares of the registrant s common stock outstanding.

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

**ATHEROGENICS, INC.**

**CONDENSED BALANCE SHEETS**

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| | (Unaudited) | (Audited) |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 38,718,011 | $ 32,132,329 |
| Short-term investments | 22,482,048 | 2,538,802 |
| Prepaid expense | 2,211,828 | 166,995 |
| Notes receivable and other current assets | 172,077 | 56,726 |
| Total current assets | 63,583,964 | 34,894,852 |
| Equipment and leasehold improvements, net of accumulated depreciation and amortization | 2,806,595 | 2,825,267 |
| Notes receivable, net of current portion | 211,809 | 231,925 |
| Total assets | $ 66,602,368 | $ 37,952,044 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,979,247 | $ 1,959,295 |
| Accrued research and development costs | 4,315,637 | 945,506 |
| Accrued liabilities | 708,413 | 589,345 |
| Accrued compensation | 606,762 | 957,056 |
| Current portion of equipment loan facility | 461,415 | 434,637 |
| Total current liabilities | 8,071,474 | 4,885,839 |
| Equipment loan facility, net of current portion | 327,934 | 572,492 |
| Shareholders equity: | | |
| Preferred stock, no par value: Authorized 5,000,000 shares | | |
| Common stock, no par value: Authorized 100,000,000 shares; issued and outstanding 36,522,896 and 28,133,560 shares at June 30, 2003 and December 31, 2002, respectively | 171,273,523 | 122,182,607 |
| Warrants | 1,087,536 | 798,076 |
| Deferred stock compensation | (1,072,843) | (1,243,786) |
| Accumulated deficit | (113,074,173) | (89,243,494) |
| Accumulated other comprehensive (loss) income | (11,083) | 310 |
| Total shareholders equity | 58,202,960 | 32,493,713 |
| Total liabilities and shareholders equity | $ 66,602,368 | $ 37,952,044 |

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

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**ATHEROGENICS, INC.**

**CONDENSED STATEMENTS OF OPERATIONS**
**(Unaudited)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues | $ | $ | $ | $ |
| Operating expenses: | | | | |
| Research and development | 10,833,917 | 5,317,582 | 20,992,318 | 10,703,196 |
| General and administrative | 1,238,980 | 1,024,849 | 2,432,272 | 2,008,195 |
| Amortization of deferred stock compensation | 469,517 | 499,323 | 790,186 | 998,646 |
| Total operating expenses | 12,542,414 | 6,841,754 | 24,214,776 | 13,710,037 |
| Operating loss | (12,542,414) | (6,841,754) | (24,214,776) | (13,710,037) |
| Net interest income | 206,436 | 269,260 | 384,097 | 573,828 |
| Net loss | $ (12,335,978) | $ (6,572,494) | $ (23,830,679) | $ (13,136,209) |
| Net loss per share basic and diluted | $ (0.34) | $ (0.24) | $ (0.68) | $ (0.47) |
| Weighted average shares outstanding basic and diluted | 36,458,982 | 27,925,386 | 34,884,745 | 27,900,963 |

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

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**ATHEROGENICS, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Six months ended June 30, | |
|---|---|---|
| | **2003** | **2002** |
| **Operating activities:** | | |
| Net loss | $(23,830,679) | $(13,136,209) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 398,460 | 359,113 |
| Amortization of deferred stock compensation | 790,186 | 998,646 |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses | (2,044,833) | (20,944) |
| Notes receivable and other current assets | (95,235) | (46,413) |
| Accounts payable | 19,952 | (420,051) |
| Accrued research and development | 3,370,131 | 203,983 |
| Accrued liabilities | (231,226) | (201,694) |
| Net cash used in operating activities | (21,623,244) | (12,263,569) |
| **Investing activities:** | | |
| Purchases of equipment and leasehold improvements | (379,788) | (395,342) |
| (Purchases) sales of short-term investments | (19,954,639) | 11,625,629 |
| Net cash (used in) provided by investing activities | (20,334,427) | 11,230,287 |
| **Financing activities:** | | |
| Proceeds from the issuance of common stock | 48,411,649 | |
| Proceeds from the exercise of common stock options | 349,484 | 58,521 |
| Proceeds from equipment loan facility | | 936,851 |
| Payments on equipment loan facility and capital lease obligation | (217,780) | (126,911) |
| Net cash provided by financing activities | 48,543,353 | 868,461 |
| Increase (decrease) in cash and cash equivalents | 6,585,682 | (164,821) |
| Cash and cash equivalents at beginning of period | 32,132,329 | 28,682,050 |
| Cash and cash equivalents at end of period | $ 38,718,011 | $ 28,517,229 |
| **Supplemental disclosures of cash flow information:** | | |
| Interest paid | $ 35,175 | $ 17,255 |
| Remeasurement adjustment for variable options and warrants issued for technology license agreements and consulting agreements | 619,243 | 147,015 |

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

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**ATHEROGENICS, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**
**(Unaudited)**

**1. Basis of Presentation**

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

The interim results should be read in conjunction with the financial statements and notes thereto included in AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2002. Shareholders are encouraged to review the Form 10-K for a broader discussion of AtheroGenics opportunities and risks inherent in the business. Copies of the Form 10-K are available on request.

**2. Recently Issued Accounting Standards**

In December 2002, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* ( SFAS 148 ), that amends SFAS No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ), to provide alternative methods of transition to SFAS 123 s fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure in the summary of significant accounting policies of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148 does not amend SFAS 123 to require companies to account for employee stock options using the fair value method. SFAS 148 is effective for fiscal years beginning after December 15, 2002. AtheroGenics adopted the new disclosure provisions in accordance with SFAS 148, as discussed in note 4 Stock-Based Compensation.

**3. Net Loss per Share**

SFAS No. 128, *Earnings per Share,* requires presentation of both basic and diluted earnings per share. Basic earnings per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed in the same manner as basic earnings per share except that diluted earnings per share reflects the potential dilution that would occur if outstanding options and warrants were exercised. Because AtheroGenics reported a net loss for all periods presented, shares associated with stock options and warrants are not included because they are antidilutive. Basic and diluted net loss per share amounts are the same for the periods presented.

**4. Stock-Based Compensation**

AtheroGenics has elected to follow Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ), in accounting for its stock-based employee compensation plans, rather than the alternative fair value accounting method provided for under SFAS 123, as SFAS 123 requires the use of option valuation models that were not developed for use in valuing employee stock options. AtheroGenics accounts for transactions in which services are received in exchange for equity instruments based on the fair value of such services received from non-employees, in accordance with SFAS 123 and Emerging Issues Task Force ( EITF ) Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.*

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The following table illustrates the effect on net loss and net loss per share if the fair value based method had been applied to all outstanding and unvested options in each period, based on the provisions of SFAS 123 and SFAS 148.

| | June 30, | |
|---|---|---|
| | 2003 | 2002 |
| Net loss, as reported | $(23,830,679) | $(13,136,209) |
| Add: Stock-based employee compensation expense included in reported net loss | 281,560 | 784,020 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards | (1,723,627) | (1,683,509) |
| Pro forma net loss | $(25,272,746) | $(14,035,698) |
| Net loss per share: | | |
| Basic and diluted, as reported | $ (0.68) | $ (0.47) |
| Basic and diluted, pro forma | $ (0.72) | $ (0.50) |

**5. Deferred Stock Compensation**

Deferred compensation for options granted to employees represents the difference between the exercise price and the deemed fair value of AtheroGenics common stock on the dates these stock options were granted. The deferred compensation is included as a reduction of shareholders equity and is amortized over the vesting periods of the individual options, generally four years, using the graded vesting method. The graded vesting method provides for vesting of portions of the overall award at interim dates and results in higher vesting in earlier years than straight-line vesting.

Deferred compensation for options and warrants granted to consultants is determined in accordance with SFAS 123 and EITF Issue No. 96-18 as the fair value of the equity instruments issued. Deferred compensation for options and warrants granted to consultants is adjusted to fair market value on each balance sheet date.

At June 30, 2003, AtheroGenics had a total of $1,072,843 remaining to be amortized over the vesting periods of all stock options and warrants.

**6. Follow-on Offering**

In February 2003, AtheroGenics completed a follow-on public offering of 8,280,000 shares of common stock (including the exercise of the underwriters over-allotment option) that raised net proceeds of approximately $48,400,000.

**7. Bank Credit Agreements**

In March 2002, AtheroGenics entered into a revolving credit facility with Silicon Valley Bank for up to a maximum amount of $5,000,000 to be used for working capital requirements. Under the terms of the facility, interest on advances is charged at the Bank s prime rate plus 1.50% per year, provided that certain liquidity levels are maintained; otherwise interest will be charged at prime rate plus 2.0% per year. Amounts borrowed under the revolving credit facility may be repaid and reborrowed at any time and from time to time during the term of the facility. The revolving line of credit terminates on September 5, 2004 and all outstanding amounts and accrued interest will be due and payable on that date. As of June 30, 2003, there were no outstanding balances under the revolving credit facility.

In addition, in March 2002, AtheroGenics entered into an equipment loan facility with Silicon Valley Bank for up to a maximum amount of $2,500,000 to be used to finance existing and new equipment purchases. The interest rate on the equipment advances was equal to the greater of (1) the Bank s prime rate plus 3.0% or (2) 7.5% per year and was fixed at the time of each advance. Amounts borrowed under the equipment loan facility are repaid in 33 equal installments of principal and interest beginning on the first business day of the month following an

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advance. As of June 30, 2003, there was an outstanding balance of $789,349 under the equipment loan facility and the weighted average interest rate was 7.7%.

As collateral for the revolving credit facility and for the equipment loan facility, AtheroGenics granted to Silicon Valley Bank a security interest in all of its assets other than its intellectual property, and granted a negative pledge on its intellectual property. Also, in conjunction with these facilities, AtheroGenics was required to maintain a $15 million compensating cash balance in an account with the Bank.

In June 2003, AtheroGenics entered into a loan modification agreement related to the equipment loan facility extending the borrowing period until September 30, 2003 and canceling the compensating cash balance requirement on the revolving credit facility and the equipment loan facility.

**8. Reclassifications**

Certain prior year balances have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported net loss or shareholders equity.

**9. Subsequent Events**

On August 12, 2003, we announced an offer to issue $75.0 million of convertible notes due 2008 through a Rule 144A offering to qualified institutional buyers. These notes will be convertible into AtheroGenics, Inc. common stock at a price to be determined.

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

*The following should be read with the financial statements and related footnotes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in AtheroGenics Annual Report on Form 10-K for the fiscal year ended December 31, 2002. The results discussed below are not necessarily indicative of the results to be expected in any future periods. The following discussion contains forward-looking statements that are subject to risks and uncertainties which could cause actual results to differ from the statements made. These risks are set forth in more detail in our Annual Report on Form 10-K.*

**OVERVIEW**

Since our operations began in 1994, we have focused on the discovery, development and commercialization of novel drugs for the treatment of chronic inflammatory diseases, including heart disease (atherosclerosis), rheumatoid arthritis, organ transplant rejection and asthma. Based on our proprietary vascular protectant, or v-protectant , technology platform, we have four drug programs in the clinic, and are pursuing a number of other preclinical programs.

AGI-1067 is our v-protectant candidate that is most advanced in clinical development, and is designed to benefit patients with heart disease. AGI-1067 is currently in a Phase III clinical trial, referred to as ARISE, or Aggressive Reduction of Inflammation Stops Events, to evaluate the impact of AGI-1067 on important outcome measures such as death due to heart disease, myocardial infarction, stroke, coronary revascularization and unstable angina in patients who have coronary heart disease. ARISE will enroll 4,000 patients who will be followed for an average of 18 months or until a minimum of 1,160 primary events, or outcome measures, have occurred. We recently completed enrollment in our AGI-1067 CART-2 Phase IIb clinical trial. CART-2 is a 12-month, 500 patient, double-blind, placebo-controlled trial of AGI-1067 280mg, administered orally once daily, versus placebo, to assess the effect of AGI-1067 on the progression of atherosclerosis in patients with heart disease. We expect to complete the treatment phase of CART-2 in 12 months and will then proceed with data analysis and disclosure of the results.

Our second clinical compound, AGIX-4207, is a novel oral agent being developed for the treatment of the signs and symptoms of rheumatoid arthritis. We have completed a Phase II clinical trial that evaluated safety, tolerability and the effect of orally administered AGIX-4207 on biological markers of inflammation in rheumatoid arthritis patients. Data from the trial demonstrated that treatment with AGIX-4207 was safe and well tolerated by patients and also inhibited an increase in the inflammatory biomarker know as the erythrocyte sedimentation rate, or ESR, by more than 90 percent. Planning is underway for a 220 patient Phase II trial of AGIX-4207, called OSCAR,

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or Oral Suppression of Cellular Inflammation Attenuates Rheumatoid Arthritis, which is scheduled to begin later this year. OSCAR will evaluate the impact of various doses of AGIX-4207 versus placebo on clinical efficacy, biomarkers and safety in patients with mild to moderate rheumatoid arthritis. AGIX-4207 I.V., our third v-protectant candidate, is an intravenous drug designed to treat rheumatoid arthritis patients in whom the rapid attainment of target drug levels in the blood is desirable. We have completed a Phase I clinical trial that assessed the safety and tolerability of AGIX-4207 I.V. in healthy volunteers. The results from this trial demonstrated that single infusions of AGIX-4207 I.V. were well tolerated and adverse events were generally mild and not considered clinically significant.

Our fourth v-protectant drug, AGI-1096, is a novel antioxidant and selective anti-inflammatory agent that is being developed to address the accelerated inflammation of grafted blood vessels, known as transplant arteritis, common in chronic organ transplant rejection. We have completed a Phase I clinical trial that assessed safety and tolerability of AGI-1096 in healthy volunteers. The results of AGI-1096 clinical trial data demonstrated the drug was well tolerated at all oral doses, with no drug-related adverse events.

To date, we have devoted substantially all of our resources to research and development. We have not received any commercial revenues from product sales. We expect to incur significant losses in most years prior to deriving any product revenue as we continue to increase research and development costs. We have incurred significant losses since we began operations in 1994 and as of June 30, 2003, we had an accumulated deficit of $113.1 million. We cannot assure you that we will become profitable. We expect that losses will fluctuate from quarter to quarter and that these fluctuations may be substantial. Our ability to achieve profitability depends upon a variety of factors, including our ability, alone or with others, to complete the successful development of our product candidates, to obtain required regulatory clearances, and to manufacture and market our future products.

On August 12, 2003, we announced an offer to issue $75.0 million of convertible notes due 2008 through a Rule 144A offering to qualified institutional buyers. These notes will be convertible into our common stock at a price to be determined.

**RESULTS OF OPERATIONS**

**Comparison of the Three and Six Month Periods Ended June 30, 2003 and 2002**

*Revenues*

There were no revenues during the three and six months ended June 30, 2003 and 2002.

*Expenses*

*Research and Development.* Research and development expenses increased 104% to $10.8 million for the three months ended June 30, 2003 from $5.3 million for the comparable period in 2002, and 96% to $21.0 million for the six months ended June 30, 2003 from $10.7 million in the comparable period in 2002. The increase in research and development expenses for the three and six months ended June 30, 2003 was primarily due to start-up expenditures related to the AGI-1067 ARISE Phase III clinical trial, such as manufacturing activities for clinical drug supply, clinical site selection and investigator recruitment. In addition, there were increased expenditures for the ongoing AGI-1067 CART-2 Phase IIb clinical trial.

*General and Administrative.* General and administrative expenses increased 21% to $1.2 million for the three months ended June 30, 2003 from $1.0 million for the comparable period in 2002, and 21% to $2.4 million for the six months ended June 30, 2003 from $2.0 million in the comparable period in 2002. The increase in general and administrative expenses for the three and six months ended June 30, 2003 was primarily due to business development activities, including increased staffing and partnership discussions for AGI-1067.

*Amortization of Deferred Stock Compensation.* Amortization of deferred stock compensation was $469,517 for the three months ended June 30, 2003, compared to $499,323 for the comparable period in 2002, and $790,186 for the six months ended June 30, 2003, compared to $998,646 for the comparable period in 2002. The decrease in the three and six months ended June 30, 2003 is due to the deferred stock compensation being amortized using the graded vesting method, which results in higher amortization in the earlier years. The decrease was partially offset by the effect of remeasuring options and warrants granted to consultants to current fair market value.

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*Net Interest Income*

Net interest income decreased 23% from $269,260 for the three months ended June 30, 2002 to $206,436 for the comparable period in 2003. Net interest income decreased 33% from $573,828 for the six months ended June 30, 2002 to $384,097 for the comparable period in 2003. The decrease in net interest income is a reflection of lower average interest rates.

**LIQUIDITY AND CAPITAL RESOURCES**

Since inception, we have financed our operations primarily through sales of equity securities, borrowings and payments received from a license agreement, which was subsequently terminated. At June 30, 2003, we had cash, cash equivalents and short-term investments of $61.2 million, compared with $34.7 million at December 31, 2002. Working capital at June 30, 2003 was $55.5 million, compared to $30.0 million at December 31, 2002. The increase in cash, cash equivalents, short-term investments and working capital is primarily due to a follow-on public offering of 8.3 million shares of common stock (including the exercise of the underwriters over-allotment option) in the first quarter of 2003 that raised net proceeds of approximately $48.4 million.

Net cash used in operating activities was $21.6 million for the six months ended June 30, 2003, compared to $12.3 million for the comparable period in 2002. The increase in the use of cash in operating activities is principally due to funding a net loss of $23.8 million and an increase in prepaid expense of $2.0 million. The increase in cash to fund the net loss is primarily attributable to the expenditures for the initiation of our ARISE Phase III clinical trial and the continuation of our CART-2 Phase IIb clinical trial for AGI-1067 as well as other ongoing product development activities. The increase in prepaid expense is due pre-commencement payments to contractors for the ARISE clinical trial. In connection with entering into the ARISE clinical trial for AGI-1067 and the resultant increase in cash usage, we expect that prepaid expenses and the research and development accrual may fluctuate more significantly than in previous periods. We anticipate net cash usage in 2003 for the ARISE clinical trial, in combination with our other operating activities and on-going clinical programs, to be approximately $48.0 million.

Net cash used in investing activities was $20.3 million for the six months ended June 30, 2003, compared to $11.2 million provided by investing activities for the comparable period in 2002. Net cash used in investing activities during the six months ended June 30, 2003 consisted primarily of the purchases of available-for-sale securities and equipment and leasehold improvements. Net cash provided by investing activities during the six months ended June 30, 2002 consisted primarily of the sales of available-for-sale securities, with the proceeds reinvested in interest bearing cash equivalents, partially offset by the purchase of equipment and leasehold improvements.

Net cash provided by financing activities was $48.5 million for the six months ended June 30, 2003, and $868,461 for the comparable period in 2002. Net cash provided by financing activities in the six months ended June 30, 2003 consisted primarily of proceeds of approximately $48.4 million from the follow-on public offering of 8.3 million shares of our common stock. This was partially offset by payments on our equipment loan facility. Net cash provided by financing activities in the six months ended June 30, 2002 consisted of the receipt of funds from the equipment loan facility and exercise of stock options, offset by payments for capital lease obligations.

In March 2002, we entered into a revolving credit facility with Silicon Valley Bank in the amount of up to $5.0 million to be used for working capital requirements. In addition, we entered into an equipment loan facility with Silicon Valley Bank in the amount of up to $2.5 million to be used to finance existing and new equipment purchases. At June 30, 2003 there was no outstanding balance on the revolving credit facility and an outstanding balance of $789,349 with a weighted average interest rate of 7.7% on the equipment loan facility. As collateral for the revolving credit facility and for the equipment loan facility, AtheroGenics granted to Silicon Valley Bank a security interest in all of its assets other than its intellectual property, and granted a negative pledge on its intellectual property. Also, in conjunction with these facilities, AtheroGenics was required to maintain a $15 million compensating cash balance in an account with the Bank.

In June 2003, AtheroGenics entered into a loan modification agreement related to the equipment loan facility extending the borrowing period until September 30, 2003 and canceling the compensating cash balance requirement on the revolving credit facility and the equipment loan facility.

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On August 12, 2003, we announced an offer to issue $75.0 million of convertible notes due 2008 through a Rule 144A offering to qualified institutional buyers. These notes will be convertible into our common stock at a price to be determined.

The following table summarizes our long-term contractual obligations as of June 30, 2003.

| | 2003 | 2004-2005 | 2006-2007 | Thereafter |
|---|---|---|---|---|
| Operating leases, net of sublease income | $529,470 | $2,086,674 | $2,273,790 | $1,326,378 |
| Long-term debt | 216,857 | 572,492 | | |
| Total contractual obligations | $746,327 | $2,659,166 | $2,273,790 | $1,326,378 |

Based upon the current status of our product development and commercialization plans, we believe that our existing cash and cash equivalents and short-term investments, along with our revolving credit facility with Silicon Valley Bank and the expected proceeds from the recent offer to issue convertible notes, will be adequate to satisfy our capital needs for at least the next 12 months. However, our actual capital requirements will depend on many factors, including:

the status of product development;

the time and cost involved in conducting clinical trials and obtaining regulatory approvals;

the costs of filing, prosecuting and enforcing patent and other intellectual property claims;

competing technological and market developments; and

our ability to establish new licensing agreements.

**FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 (the Reform Act ) provides a safe harbor for forward-looking statements made by or on behalf of AtheroGenics. AtheroGenics and its representatives may from time to time make written or oral forward-looking statements, including statements contained in this report and our other filings with the Securities and Exchange Commission and in our reports to our shareholders. Generally, the words believe, expect, intend, estimate, anticipate, will and similar expressions identify forward-looking statements. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, such as projections about our future results of operations or our financial condition, research, development and commercialization of our product candidates and anticipated trends in our business, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management s then current views and assumptions regarding future events and operating performance, and speak only as of their dates. AtheroGenics undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

AGI-1067, AGIX-4207, AGIX-4207 I.V. and AGI-1096 may fail in clinical trials;

our ability to generate positive cash flow in light of our history of operating losses;

our inability to obtain additional financing on satisfactory terms, which could preclude us from developing or marketing our products;

our ability to successfully develop our other product candidates;

our ability to commercialize our product candidates if we fail to demonstrate adequately their safety and efficacy;

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possible delays in our clinical trials;

our inability to predict whether or when we will obtain regulatory approval to commercialize our product candidates or the timing of any future revenue from these product candidates;

our need to comply with applicable regulatory requirements in the manufacture and distribution of our products to avoid incurring penalties that may inhibit our ability to commercialize our products;

our ability to protect adequately or enforce our intellectual property rights or secure rights to third party patents;

the ability of our competitors to develop and market anti-inflammatory products that are more effective, have fewer side effects or are less expensive than our current or future product candidates;

third parties failure to synthesize and manufacture our product candidates, which could delay our clinical trials or hinder our commercialization prospects;

our ability to create sales, marketing and distribution capabilities or enter into agreements with third parties to perform these functions;

our ability to attract, retain and motivate skilled personnel and cultivate key academic collaborations;

our ability to obtain an adequate level of reimbursement or acceptable prices for our products; and

if plaintiffs bring product liability lawsuits against us, we may incur substantial financial loss or may be unable to obtain future product liability insurance at reasonable prices, if at all, either of which could diminish our ability to commercialize our future products.

The foregoing list of important factors is discussed in more detail in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and is not exclusive.

**Item 3. Quantitative And Qualitative Disclosures About Market Risk**

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

The following table summarizes information on our equipment loan facility. The table presents maturity of the debt and projected annual average interest rates as of June 30, 2003.

| | 2003 | 2004 | 2005 | Total | Value as of June 30, 2003 |
|---|---|---|---|---|---|
| Long-term debt fixed rate | | | | | |
| Maturity | $216,857 | $488,870 | $83,622 | $789,349 | $789,349 |
| Average interest rate | 7.7% | 7.7% | 7.7% | | |

**Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures.* Our chief executive officer and chief financial officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for AtheroGenics. Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures are adequate and effective in timely alerting them to material information relating to us required to be included in our periodic SEC filings.

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*Changes in internal control over financial reporting.* There were no material changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

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

Our annual meeting of shareholders was held on May 8, 2003. At the annual meeting, the shareholders of AtheroGenics (1) elected three Class III directors to serve until the 2006 Annual Meeting of Shareholders and (2) ratified the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2003.

We had 36,426,960 shares of common stock outstanding as of March 3, 2003, the record date of the annual meeting. At the annual meeting, we had 29,552,915 share of common stock present in person or represented by proxy for the two proposals indicated above. The following sets forth detailed information regarding the results of the voting at the annual meeting:

Proposal 1. Election of three Class II directors

| Name of Nominee | No. of Votes For | No. of Votes Withheld |
|---|---|---|
| Michael A. Henos | 27,123,672 | 2,429,243 |
| Russell M. Medford | 27,911,208 | 1,641,707 |
| Arthur M. Pappas | 28,779,103 | 773,812 |

Proposal 2. Ratifications of the appointment of independent auditors

| No. of Votes For | No. of Votes Against | Abstention |
|---|---|---|
| 29,367,363 | 181,500 | 4,052 |

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

(a) Exhibits

| | |
|---|---|
| Exhibit 10.23 | First Loan Modification dated June 20, 2003 between AtheroGenics, Inc. and Silicon Valley Bank. |
| Exhibit 31 | Certifications of Chief Executive Officer and Chief Financial Officer under Rule 13a-14(a). |
| Exhibit 32 | Certifications of Chief Executive Officer and Chief Financial Officer under Section 1350. |

(b) Reports on Form 8-K

On April 23, 2003, we furnished a Current Report on Form 8-K under Item 12, reporting the issuance of our press release announcing our financial results for the first quarter ended March 31, 2003.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ATHEROGENICS, INC**

Date: August 13, 2003

/s/ MARK P. COLONNESE

Mark P. Colonnese
Senior Vice President of Finance and Administration and Chief Financial Officer