ALTEON INC /DE
Form 424B3
June 14, 2006

Table of Contents

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Registration No. 333-134584

ALTEON INC.
21,920,800 SHARES OF COMMON STOCK

We sold shares of our common stock and warrants to purchase our common stock for an aggregate purchase price of approximately $2.6 million in a private placement which closed on April 21, 2006. This prospectus relates to the resale from time to time of up to a total of 21,920,800 shares of our common stock by the selling stockholders described in the section entitled Selling Stockholders on page 24 of this prospectus.

The selling stockholders will receive all of the proceeds from the disposition of the shares or interests therein and will pay all underwriting discounts and selling commissions relating thereto. We have agreed to pay the legal, accounting, printing and other expenses related to the registration of the shares.

Our common stock is listed on The American Stock Exchange under the symbol ALT. On June 13, 2006, the last reported sale price of our common stock was $0.20 per share. Our principal executive offices are located at 6 Campus Drive, Parsippany, New Jersey 07054, and our telephone number is 201-934-5000.

You should consider carefully the risks that we have described in Risk Factors beginning on page 4 before deciding whether to invest in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

THE DATE OF THIS PROSPECTUS IS June 14, 2006

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

You should read this prospectus and the information and documents incorporated by reference carefully. Such documents contain important information you should consider when making your investment decision. See Incorporation of Certain Documents by Reference on page 30. You should rely only on the information provided in this prospectus or documents incorporated by reference into this prospectus. We have not authorized anyone to provide you with different information. The selling stockholders are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions in which offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

In this prospectus, we refer to Alteon Inc. as the Company or Alteon.

OUR BUSINESS

The following is only a summary. We urge you to read this entire prospectus, including the more detailed consolidated financial statements, notes to the consolidated financial statements and other information incorporated by reference from our other filings with the SEC. Investing in our common stock involves risks. Therefore, please carefully consider the information provided under the heading Risk Factors beginning on page 4.

Overview

We are a product-based biopharmaceutical company engaged in the development of small molecule drugs to treat and prevent cardiovascular diseases and other diseases associated with aging and diabetes. We have identified promising product candidates that we believe represent novel potential approaches to some of the largest pharmaceutical markets. We have advanced one of these products into Phase 2 clinical trials.

Our lead drug candidate, alagebrium chloride or alagebrium (formerly ALT-711), is a product of our drug discovery and development program. Alagebrium has demonstrated potential efficacy in two clinical trials in heart failure, as well as in animal models of heart failure and nephropathy, among others. It has been tested in approximately 1,000 patients in a number of Phase 1 and Phase 2 clinical trials. Our goal is to develop alagebrium to treat diastolic heart failure (DHF). This disease represents a rapidly growing market of unmet need, particularly common among diabetic patients, and alagebrium has demonstrated relevant clinical activity in two Phase 2 clinical trials.

In April 2006, we announced the signing of a definitive merger agreement with HaptoGuard, Inc., whereby the two companies will combine operations. The companies have complementary product platforms in cardiovascular diseases, diabetes and other inflammatory diseases. We have begun working with the HaptoGuard team in anticipation of the merger of the companies, and are preparing a Phase 2 protocol for alagebrium in heart failure in order to expand our clinical program in this therapeutic area. However, any continued development of alagebrium by us is contingent upon the successful completion of the merger and adequate funding for product development.

Following the merger, the combined company will have two products in Phase 2 clinical development:

Alagebrium chloride (formerly ALT-711), Alteon s lead compound, is an Advanced Glycation End-product Crosslink Breaker being developed for heart failure. Data presented from two Phase 2 clinical studies at the American Heart Association meeting in November 2005 demonstrated the ability of alagebrium to improve overall cardiac function, including measures of diastolic and endothelial function. In these studies, alagebrium also demonstrated the ability to significantly reduce left ventricular mass. The compound has been tested in approximately 1,000 patients, which represents a sizeable human safety database, in a number of Phase 2 clinical trials.

ALT-2074 (formerly BXT-51072), HaptoGuard s licensed lead compound, is a glutathione peroxidase mimetic in development for reduction of mortality in post-myocardial infarction patients with diabetes. The compound has shown the ability to reduce infarct size by approximately 85% in a mouse model of heart attack called ischemia reperfusion injury.

Table of Contents

Additionally, HaptoGuard owns a license to a proprietary genetic biomarker that has shown the potential to identify patients who are most responsive to the HaptoGuard compound.

The merger of the two companies will be structured as an acquisition by Alteon. Under the terms of the merger agreement, HaptoGuard shareholders will receive approximately 37.4 million shares of Alteon common stock (approximately 31% of total shares after completion of the merger.) As part of the merger, a portion of existing shares of Alteon preferred stock held by Genentech, Inc. will be converted into common stock, among other transactions. The merger and preferred stock restructuring transactions are subject to the approval of Alteon and HaptoGuard shareholders and are expected to close early in the third quarter of 2006.

In April 2006, we also announced the signing of definitive agreements for a private equity financing which resulted in gross proceeds to us of approximately $2.6 million. The private equity financing includes new and existing institutional investors, in which we sold approximately 10.3 million Units, consisting of common stock and warrants, for net proceeds after expenses and fees of approximately $2.5 million. Each Unit consists of one share of Alteon common stock and one warrant to purchase one share of Alteon common stock. The Units were sold at a price of $0.25 per Unit and the warrants are exercisable, commencing six months from the date of issuance, for a period of five years at an exercise price of $0.30 per share. The shares of common stock and warrants that were offered and sold in the financing were not registered under the Securities Act or state securities laws pursuant to an exemption from registration provided by Regulation D under the Securities Act. The Company has agreed to file this registration statement with the SEC for the resale of the shares of common stock and the shares of common stock underlying the warrants sold in the private equity financing. Rodman & Renshaw, LLC served as placement agent in the transaction and received a 6% placement fee which was paid in Units.

We were incorporated in Delaware in October 1986. Our headquarters are located at 6 Campus Drive, Parsippany, New Jersey 07054. We maintain a web site at www.alteon.com and our telephone number is (201) 934-5000. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and all amendments to those reports, are available to you free of charge through the Investor Relations section of our website as soon as reasonably practicable after such materials have been electronically filed with, or furnished to, the Securities and Exchange Commission.

Table of Contents

RISK FACTORS

The following factors should be considered carefully in evaluating whether to purchase shares of Alteon common stock. These factors should be considered in conjunction with any other information included or incorporated by reference herein, including in conjunction with forward-looking statements made herein. See Where You Can Find More Information on Page 29.

RISKS RELATED TO OUR BUSINESS

As a result of a decrease in our available financial resources, we have significantly curtailed the research, product development, preclinical testing and clinical trials of our product candidates, and if we are unable to obtain sufficient additional funding in the near term, we may be forced to cease operations.

As of March 31, 2006, we had working capital of $3,755,000, including $4,469,000 of cash and cash equivalents. Our cash used in operating activities for the three months ended March 31, 2006 was $1,912,000.

On April 19, 2006, we signed a definitive merger agreement with HaptoGuard, Inc., whereby the two companies will combine operations in a stock transaction valued at $8.8 million. As part of the merger, a portion of our existing shares of preferred stock held by Genentech, Inc. will be converted into common stock. In addition, on April 21, 2006, we closed an equity financing that resulted in net proceeds to us of approximately $2.5 million. Assuming completion of the merger between Alteon and HaptoGuard, we expect to utilize cash and cash equivalents to fund our operating activities, and to fund the future clinical development efforts of the combined companies, including the planned Phase 2 studies of our lead compound, alagebrium and HaptoGuard s lead compound ALT-2074.

While we intend to pursue development of alagebrium in high potential cardiovascular indications such as heart failure, any continued development of alagebrium by us is contingent upon our completion of the merger.

If we are unable to complete the merger and the preferred stock restructuring on reasonable terms, we will not have the ability to continue as a going concern after late 2006. As part of the merger, there are associated costs that will result in the Company being required to make payment of certain obligations in the amount of approximately $2.0 million, including severance and other contractual and regulatory requirements. Even if we complete the merger, there can be no assurance that the products or technologies acquired in such transaction will result in revenues to the combined company or any meaningful return on investment to our stockholders.

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

Selling securities to satisfy our short-term and long-term capital requirements may have the effect of materially diluting the current holders of our outstanding stock. We may also seek additional funding through corporate collaborations and other financing vehicles. If funds are obtained through arrangements with collaborative partners or others, we may be required to relinquish rights to our technologies or product candidates.

If we are unable to complete the merger and related stock conversion transaction with respect to our preferred stock, we may not be able to secure future equity financing or merge with a third party.

In December 1997, we entered into an agreement with Genentech relating to the development of pimagedine, an A.G.E. formation inhibitor, for the treatment of diabetic nephropathy. As part of this agreement, Genentech purchased shares of Alteon Series G Preferred Stock and Series H Preferred Stock, the proceeds of which were used to fund the pimagedine development program. Both the Series G Preferred Stock and Series H Preferred Stock have dividends which are payable quarterly in shares of preferred stock at a rate of 8.5% of the accumulated balance. The Series G and Series H Preferred Stock each carry a liquidation preference, which means that the value

Table of Contents

of that preferred stock would be required to be paid to the holders of the Series G and Series H Preferred Stock upon a sale or liquidation before any proceeds from such sale or liquidation are paid to any other holders of equity securities, including the common stock. As of March 31, 2006, holders of the outstanding shares of Series G and Series H Preferred Stock, including shares issued pursuant to the dividend obligation, were entitled to a liquidation preference of $56,789,227. Our total market capitalization as of that date was $12,759,276. As a result, unless we complete the merger, holders of our common stock will not realize any value upon our sale or liquidation at a valuation of less than $56,789,227. The Series G and Series H Preferred Stock have no voting rights. Each share of Series G Preferred Stock and Series H Preferred Stock is convertible, upon 70 days prior written notice, into the number of shares of common stock determined by dividing $10,000 by the average of the closing prices of our common stock, as reported on the American Stock Exchange, for the 20 business days immediately preceding the date of conversion. On March 31, 2006, the Series G and Series H Preferred Stock would have been convertible into 55,623,529 and 167,079,216 shares of common stock, respectively, representing, in aggregate, approximately 79.3% of our common stock outstanding on an as-converted basis as of that date.

While the terms of the Series G and Series H Preferred Stock generally restrict Genentech s ownership position in us upon conversion to 40% of our outstanding common stock, any conversion of shares of Series G and/or Series H Preferred Stock into common stock would represent a substantial dilution to existing common shareholders. Potential financing sources for us may be dissuaded from investing in us in light of the presence of a significant holder of securities having a sizable liquidation preference and/or voting position. This could also discourage any potential acquirer from pursuing a transaction with us at a valuation that does not result in sufficient proceeds to pay the full liquidation preference due to Genentech.

As noted above, on April 19, 2006, we entered into a definitive merger agreement with HaptoGuard, Inc., whereby the two companies will combine operations in a stock transaction valued at $8.8 million. As part of the merger, a portion of existing shares of Alteon preferred stock held by Genentech, Inc. (a) will be converted into 13,492,349 shares of common stock and (b) a portion of such stock will be converted to common stock valued at $3.5 million, or approximately 14,874,628 shares and will be transferred to HaptoGuard shareholders in exchange for certain negotiation and royalty rights for certain HaptoGuard products, and the remaining shares of Alteon preferred stock held by Genentech, Inc. will be cancelled. The merger and stock conversion transactions are subject to the approval of Alteon and HaptoGuard shareholders and are expected to close in the third quarter of 2006. There is no assurance the merger and related transactions will close.

We have received a going concern opinion from our independent registered public accounting firm, which could negatively affect our stock price and our ability to raise capital.

J.H. Cohn LLP, our independent registered public accounting firm, has included an explanatory paragraph in their report on our financial statements for the fiscal year ended December 31, 2005, which expresses substantial doubt about our ability to continue as a going concern. The inclusion of a going concern explanatory paragraph in J.H. Cohn LLP s report on our financial statements could have a detrimental effect on our stock price and our ability to raise additional capital.

Our financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have not made any adjustments to the financial statements as a result of the outcome of the uncertainty described above.

If we are unable to form the successful collaborative relationships that our business strategy requires, then our programs will suffer and we may not be able to develop products.

Our strategy for developing and deriving revenues from our products depends, in large part, upon entering into arrangements with research collaborators, corporate partners and others. The potential market, preclinical and clinical study results and safety profile of our product candidates may not be attractive to potential corporate partners. A two-year toxicity study found that male rats exposed to high doses of alagebrium over their natural lifetime developed dose-related increases in liver cell alterations including hepatocarcinomas, and that the alteration rate was slightly over the expected background rate in this gender and species of rat. Also, our Phase 2a EMERALD study in erectile dysfunction, the IND for which has since been withdrawn, was placed on clinical hold by the Reproductive and Urologic Division which may adversely affect our ability to enter into research and development

5

collaborations with respect to alagebrium. We face significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. We may not be able to negotiate collaborations on acceptable terms, or at all. If that were to occur, we may have to curtail the development of a particular product candidate, reduce or delay our development program or one or more of our other development programs, delay our potential commercialization or reduce the scope of our sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms, or at all. If we do not have sufficient funds, we will not be able to bring our product candidates to market and generate product revenue.

If we are unable to attract and retain the key personnel on whom our success depends, our product development, marketing and commercialization plans could suffer.

We depend heavily on the principal members of our management and scientific staff to realize our strategic goals and operating objectives. Over the past few months, due to the reduction in our clinical trial activities, the number of our employees has decreased from 30 as of June 30, 2005 to 7 as of March 1, 2006. On February 1, 2006, we announced the resignation of our Chief Operating Officer, Judith S. Hedstrom. Mary Phelan has resigned from her position as our Director of Finance and Financial Reporting effective May 31, 2006. The loss of services in the near term of any of our other principal members of management and scientific staff could impede the achievement of our development priorities. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future will also be critical to our success, and there is significant competition among companies in our industry for such personnel. We have established retention programs for our current key employees, and we may be required to provide additional retention and severance benefits to our employees as we curtail operations or prepare to effect a strategic transaction such as a sale or merger with another company. However, we cannot assure you that we will be able to attract and retain personnel on acceptable terms given the competition between pharmaceutical and healthcare companies, universities and non-profit research institutions for experienced managers and scientists, and given the recent clinical and regulatory setbacks that we have experienced. In addition, we rely on consultants to assist us in formulating our research and development strategy. All of our consultants are employed by other entities and may have commitments to or consulting or advisory contracts with those other entities that may limit their availability to us.

Clinical studies required for our product candidates are time-consuming, and their outcome is uncertain.

Before obtaining regulatory approvals for the commercial sale of any of our products under development, we must demonstrate through preclinical and clinical studies that the product is safe and effective for use in each target indication. Success in preclinical studies of a product candidate may not be predictive of similar results in humans during clinical trials. None of our products has been approved for commercialization in the United States or elsewhere. In December 2004, we announced that findings of a routine two-year rodent toxicity study indicated that male Sprague Dawley rats exposed to high doses of alagebrium over their natural lifetime developed dose-related increases in liver cell alterations and tumors, and that the liver tumor rate was slightly over the expected background rate in this gender and species of rat. In February 2005, based on the initial results from one of the follow-on preclinical toxicity experiments, we voluntarily and temporarily suspended enrollment of new subjects into each of the ongoing clinical studies pending receipt of additional preclinical data. We withdrew our IND for the EMERALD study in February 2006 in order to focus our resources on the development of alagebrium in cardiovascular indications.

In June 2005, our Phase 2b SPECTRA trial in systolic hypertension was discontinued after an interim analysis found that the data did not indicate a treatment effect of alagebrium and we have ceased development of alagebrium for this indication.

We cannot predict at this time when enrollment in any of our clinical studies, will resume, if ever. If we are unable to resume enrollment in our clinical studies in a timely manner, or at all, our business will be materially adversely affected.

If we do not prove in clinical trials that our product candidates are safe and effective, we will not obtain marketing approvals from the FDA and other applicable regulatory authorities. In particular, one or more of our

product candidates may not exhibit the expected medical benefits in humans, may cause harmful side effects, may

not be effective in treating the targeted indication or may have other unexpected characteristics that preclude regulatory approval for any or all indications of use or limit commercial use if approved.

The length of time necessary to complete clinical trials varies significantly and is difficult to predict. Factors that can cause delay or termination of our clinical trials include:

slower than expected patient enrollment due to the nature of the protocol, the proximity of subjects to clinical sites, the eligibility criteria for the study, competition with clinical trials for other drug candidates or other factors;

adverse results in preclinical safety or toxicity studies;

lower than expected retention rates of subjects in a clinical trial;

inadequately trained or insufficient personnel at the study site to assist in overseeing and monitoring clinical trials;

delays in approvals from a study site s review board, or other required approvals;

longer treatment time required to demonstrate effectiveness or determine the appropriate product dose;

lack of sufficient supplies of the product candidate;

adverse medical events or side effects in treated subjects;

lack of effectiveness of the product candidate being tested; and

regulatory changes.

Even if we obtain positive results from preclinical or clinical studies for a particular product, we may not achieve the same success in future studies of that product. Data obtained from preclinical and clinical studies are susceptible to varying interpretations that could delay, limit or prevent regulatory approval. In addition, we may encounter delays or rejections based upon changes in FDA policy for drug approval during the period of product development and FDA regulatory review of each submitted new drug application. We may encounter similar delays in foreign countries. Moreover, regulatory approval may entail limitations on the indicated uses of the drug. Failure to obtain requisite governmental approvals or failure to obtain approvals of the scope requested will delay or preclude our licensees or marketing partners from marketing our products or limit the commercial use of such products and will have a material adverse effect on our business, financial condition and results of operations.

In addition, some or all of the clinical trials we undertake may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals, which could prevent or delay the creation of marketable products. Our product development costs will increase if we have delays in testing or approvals, if we need to perform more, larger or different clinical or preclinical trials than planned or if our trials are not successful. Delays in our clinical trials may harm our financial results and the commercial prospects for our products.

Before a clinical trial may commence in the United States, we must submit an IND, containing preclinical studies, chemistry, manufacturing, control and other information and a study protocol to the FDA. If the FDA does not object within 30 days after submission of the IND, then the trial may commence. If commenced, the FDA may delay, limit, suspend or terminate clinical trials at any time, or may delay, condition or reject approval of any of our product candidates, for many reasons. For example:

ongoing preclinical or clinical study results may indicate that the product candidate is not safe or effective;

the FDA may interpret our preclinical or clinical study results to indicate that the product candidate is not

Table of Contents

safe or effective, even if we interpret the results differently; or

the FDA may deem the processes and facilities that our collaborative partners, our third-party manufacturers or we propose to use in connection with the manufacture of the product candidate to be unacceptable.

If we do not successfully develop any products, or are unable to derive revenues from product sales, we will never be profitable.

Virtually all of our revenues to date have been generated from collaborative research agreements and investment income. We have not received any revenues from product sales. We may not realize product revenues on a timely basis, if at all, and there can be no assurance that we will ever be profitable.

At March 31, 2006, we had an accumulated deficit of $225,610,000. We anticipate that we will incur substantial, potentially greater, losses in the future as we continue our research, development and clinical studies. We have not yet requested or received regulatory approval for any product from the FDA or any other regulatory body. All of our product candidates, including our lead candidate, alagebrium, are still in research, preclinical or clinical development. We may not succeed in the development and marketing of any therapeutic or diagnostic product. We do not have any product other than alagebrium in clinical development, and there can be no assurance that we will be able to bring any other compound into clinical development. Adverse results of any preclinical or clinical study could cause us to materially modify our clinical development programs, resulting in delays and increased expenditures, or cease development for all or part of our ongoing studies of alagebrium.

In February 2006, the EMERALD study of alagebrium in ED was discontinued in order to focus our resources on development of alagebrium for cardiovascular indications.

In June 2005, our SPECTRA Phase 2b trial in systolic hypertension, was discontinued after an interim analysis found that the data did not indicate a treatment effect of alagebrium and we have ceased development of alagebrium for this indication.

To achieve profitable operations, we must, alone or with others, successfully identify, develop, introduce and market proprietary products. Such products will require significant additional investment, development and preclinical and clinical testing prior to potential regulatory approval and commercialization. The development of new pharmaceutical products is highly uncertain and expensive and subject to a number of significant risks. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. Potential products may be found ineffective or cause harmful side effects during preclinical testing or clinical studies, fail to receive necessary regulatory approvals, be difficult to manufacture on a large scale, be uneconomical, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties. We may not be able to undertake additional clinical studies. In addition, our product development efforts may not be successfully completed, we may not have the funds to complete any ongoing clinical trials, we may not obtain regulatory approvals, and our products, if introduced, may not be successfully marketed or achieve customer acceptance. We do not expect any of our products, including alagebrium, to be commercially available for a number of years, if at all.

Failure to remediate the material weaknesses in our internal controls and to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and stock price.

During the audit of our financial statements for the year ended December 31, 2005, our independent registered public accounting firm identified a material weakness, as of December 31, 2005, regarding our internal controls over the identification of and the accounting for non-routine transactions including certain costs related to potential strategic transactions, severance benefits and the financial statement recording and disclosures of stock options that we have granted to non-employee consultants in accordance with Emerging Issues Task Force (EITF) Issue No. 96-18. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 2, a material weakness is a significant control deficiency or a combination of significant control deficiencies, that results

Table of Contents

in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. This material weakness did not result in the restatement of any previously reported financial statements or any other related financial disclosure. Management is in the process of implementing remedial controls to address these matters. In addition, the changes that would have resulted in the financial statements for the year ended December 31, 2005, as a consequence of the material weakness, were deemed by the Company to be immaterial but were nevertheless recorded by the Company.

On April 22, 2005, we filed an amendment to our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the 10-K Amendment), in which we reported that, as of December 31, 2004, and as required by Section 404 of the Sarbanes-Oxley Act of 2002, management, with the participation of our principal executive officer and principal financial officer, had assessed the effectiveness of our internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors, and based on this assessment, management determined that as of December 31, 2004, there were three material weaknesses in our internal control over financial reporting. In light of these material weaknesses, management concluded that, as of December 31, 2004, we did not maintain effective internal control over financial reporting.

The three material weaknesses identified were in the areas of audit committee oversight of the internal control review process, information technology controls and process controls, and control over cash disbursements. With respect to each of these matters, as set forth in the Form 10-K Amendment, management has implemented remedial measures or procedures to address these matters. However, we cannot currently assure that the remedial measures that are currently being implemented will be sufficient to result in a conclusion that our internal controls no longer contain any material weaknesses, and that our internal controls are effective. In addition, we cannot assure you that, even if we are able to achieve effective internal control over financial reporting, our internal controls will remain effective for any period of time.

If we are able to form collaborative relationships, but are unable to maintain them, our product development may be delayed and disputes over rights to technology may result.

We may form collaborative relationships that, in some cases, will make us dependent upon outside partners to conduct preclinical testing and clinical studies and to provide adequate funding for our development programs. In general, collaborations involving our product candidates pose the following risks to us:

- collaborators may fail to adequately perform the scientific and preclinical studies called for under our agreements with them;
- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not pursue further development and commercialization of our product candidates or may elect not to continue or renew research and development programs based on preclinical or clinical study results, changes in their strategic focus or available funding or external factors, such as an acquisition that diverts resources or creates competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical program, stop a clinical study or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our products or product candidates if the collaborators believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically

9

attractive; collaborators with marketing and distribution rights to one or more products may not commit enough resources to their marketing and distribution;

collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our proprietary information or expose us to potential litigation;

disputes may arise between us and the collaborators that result in the delay or termination of the research, development or commercialization of our product candidates or that result in costly litigation or arbitration that diverts management attention and resources; and

collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development of the applicable product candidates.

In addition, there have been a significant number of business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators. If a present or future collaborator of ours were to be involved in a business combination, the continued pursuit and emphasis on our product development program could be delayed, diminished or terminated.

Our product candidates will remain subject to ongoing regulatory review even if they receive marketing approval. If we fail to comply with continuing regulations, we could lose these approvals and the sale of our products could be suspended.

Even if we receive regulatory approval to market a particular product candidate, the approval could be granted with the condition that we conduct additional costly post-approval studies or that we limit the indicated uses included in our labeling. Moreover, the product may later cause adverse effects that limit or prevent its widespread use, force us to withdraw it from the market or impede or delay our ability to obtain regulatory approvals in additional countries. In addition, the manufacturer of the product and its facilities will continue to be subject to FDA review and periodic inspections to ensure adherence to applicable regulations. After receiving marketing approval, the manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping related to the product will remain subject to extensive regulatory requirements. We may be slow to adapt, or we may never adapt, to changes in existing regulatory requirements or adoption of new regulatory requirements.

If we fail to comply with the regulatory requirements of the FDA and other applicable United States and foreign regulatory authorities or if previously unknown problems with our products, manufacturers or manufacturing processes are discovered, we could be subject to administrative or judicially imposed sanctions, including:

restrictions on the products, manufacturers or manufacturing processes;

warning letters;

civil or criminal penalties;

fines;

injunctions;

product seizures or detentions;

import bans;

voluntary or mandatory product recalls and publicity requirements;

suspension or withdrawal of regulatory approvals;

10

Table of Contents

total or partial suspension of production; and

refusal to approve pending applications for marketing approval of new drugs or supplements to approved applications.

If we cannot successfully form and maintain suitable arrangements with third parties for the manufacturing of the products we may develop, our ability to develop or deliver products may be impaired.

We have no experience in manufacturing products and do not have manufacturing facilities. Consequently, we will depend on contract manufacturers for the production of any products for development and commercial purposes. The manufacture of our products for clinical trials and commercial purposes is subject to current cGMP, regulations promulgated by the FDA. In the event that we are unable to obtain or retain third-party manufacturing capabilities for our products, we will not be able to commercialize our products as planned. Our reliance on third-party manufacturers will expose us to risks that could delay or prevent the initiation or completion of our clinical trials, the submission of applications for regulatory approvals, the approval of our products by the FDA or the commercialization of our products or result in higher costs or lost product revenues. In particular, contract manufacturers:

could encounter difficulties in achieving volume production, quality control and quality assurance and suffer shortages of qualified personnel, which could result in their inability to manufacture sufficient quantities of drugs to meet our clinical schedules or to commercialize our product candidates;

could terminate or choose not to renew the manufacturing agreement, based on their own business priorities, at a time that is costly or inconvenient for us;

could fail to establish and follow FDA-mandated cGMPs, as required for FDA approval of our product candidates, or fail to document their adherence to cGMPs, either of which could lead to significant delays in the availability of material for clinical study and delay or prevent filing or approval of marketing applications for our product candidates; and

could breach, or fail to perform as agreed, under the manufacturing agreement.

Changing any manufacturer that we engage for a particular product or product candidate may be difficult, as the number of potential manufacturers is limited, and we will have to compete with third parties for access to those manufacturing facilities. cGMP processes and procedures typically must be reviewed and approved by the FDA, and changing manufacturers may require re-validation of any new facility for cGMP compliance, which would likely be costly and time-consuming. We may not be able to engage replacement manufacturers on acceptable terms quickly or at all. In addition, contract manufacturers located in foreign countries may be subject to import limitations or bans. As a result, if any of our contract manufacturers is unable, for whatever reason, to supply the contracted amounts of our products that we successfully bring to market, a shortage would result which would have a negative impact on our revenues.

Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the U.S. Drug Enforcement Agency and corresponding state and foreign agencies to ensure strict compliance with cGMPs, other government regulations and corresponding foreign standards. While we are obligated to audit the performance of third-party contractors, we do not have control over our third-party manufacturers compliance with these regulations and standards. Failure by our third-party manufacturers or us to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of the government to grant pre-market approval of drugs, delays, suspension or withdrawal of approvals, seizures or recalls of product, operating restrictions and criminal prosecutions. Our dependence upon others for the manufacture of any products that we develop may adversely affect our profit margin, if any, on the sale of any future products and our ability to develop and deliver such products on a timely and competitive basis.

Table of Contents

If we are not able to protect the proprietary rights that are critical to our success, the development and any possible sales of our product candidates could suffer and competitors could force our products completely out of the market.

Our success will depend on our ability to obtain patent protection for our products, preserve our trade secrets, prevent third parties from infringing upon our proprietary rights and operate without infringing upon the proprietary rights of others, both in the United States and abroad.

The degree of patent protection afforded to pharmaceutical inventions is uncertain and our potential products are subject to this uncertainty. Competitors may develop competitive products outside the protection that may be afforded by the claims of our patents. We are aware that other parties have been issued patents and have filed patent applications in the United States and foreign countries with respect to other agents that have an effect on A.G.E.s., or the formation of A.G.E. crosslinks. In addition, although we have several patent applications pending to protect proprietary technology and potential products, these patents may not be issued, and the claims of any patents that do issue, may not provide significant protection of our technology or products. In addition, we may not enjoy any patent protection beyond the expiration dates of our currently issued patents.

We also rely upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to maintain, develop and expand our competitive position, which we seek to protect, in part, by confidentiality agreements with our corporate partners, collaborators, employees and consultants. We also have invention or patent assignment agreements with our employees and certain, but not all, corporate partners and consultants. Relevant inventions may be developed by a person not bound by an invention assignment agreement. Binding agreements may be breached, and we may not have adequate remedies for such breach. In addition, our trade secrets may become known to or be independently discovered by competitors.

The effect of accounting rules relating to our equity compensation arrangements may have an adverse effect on our stock price and financial condition.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces Accounting for Stock-Based Compensation, (SFAS 123) and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values effective for the Company January 1, 2006. Under SFAS 123R, the pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition.

The Company accounts for employee stock-based compensation, awards issued to non-employee directors, and stock options issued to consultants and contractors in accordance with SFAS 123R and Emerging Issues Task Force Issue No. 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services.

The Company has adopted the new standard, SFAS 123R, effective January 1, 2006 and has selected the Black-Scholes method of valuation for share-based compensation. The Company has adopted the modified prospective transition method which requires that compensation cost be recorded, as earned, for all unvested stock options and restricted stock outstanding at the beginning of the first quarter of adoption of SFAS 123R, and that such costs be recognized over the remaining service period after the adoption date based on the options original estimate of fair value.

On December 15, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of the vesting date of all previously issued, outstanding and unvested options, effective December 31, 2005. The acceleration and the fact that no options were issued in the three months ended March 31, 2006, resulted in the Company not being required to recognize aggregate compensation expense under SFAS 123R for the three months ended March 31, 2006.

Prior to adoption of SFAS 123R, the Company applied the intrinsic-value method under APB Opinion No.

Table of Contents

25, Accounting for Stock Issued to Employees, and related interpretations, under which no compensation cost (excluding those options granted below fair market value) had been recognized. SFAS 123 established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123, the Company elected to continue to apply the intrinsic-value based method of accounting described above, and adopted only the disclosure requirements of SFAS 123, as amended.

If we are not able to compete successfully with other companies in the development and marketing of cures and therapies for cardiovascular diseases, diabetes, and the other conditions for which we seek to develop products, we may not be able to continue our operations.

We are engaged in pharmaceutical fields characterized by extensive research efforts and rapid technological progress. Many established pharmaceutical and biotechnology companies with financial, technical and human resources greater than ours are attempting to develop, or have developed, products that would be competitive with our products. Many of these companies have extensive experience in preclinical and human clinical studies. Other companies may succeed in developing products that are safer, more efficacious or less costly than any we may develop and may also be more successful than us in production and marketing. Rapid technological development by others may result in our products becoming obsolete before we recover a significant portion of the research, development or commercialization expenses incurred with respect to those products.

Certain technologies under development by other pharmaceutical companies could result in better treatments for cardiovascular disease, and diabetes and its related complications. Several large companies have initiated or expanded research, development and licensing efforts to build pharmaceutical franchises focusing on these medical conditions, and some companies already have products approved and available for commercial sale to treat these indications. It is possible that one or more of these initiatives may reduce or eliminate the market for some of our products. In addition, other companies have initiated research in the inhibition or crosslink breaking of A.G.E.s.

If governments and third-party payers continue their efforts to contain or decrease the costs of healthcare, we may not be able to commercialize our products successfully.

In certain foreign markets, pricing and/or profitability of prescription pharmaceuticals are subject to government control. In the United States, we expect that there will continue to be federal and state initiatives to control and/or reduce pharmaceutical expenditures. In addition, increasing emphasis on managed care in the United States will continue to put pressure on pharmaceutical pricing. Cost control initiatives could decrease the price that we receive for any products for which we may receive regulatory approval to develop and sell in the future and could have a material adverse effect on our business, financial condition and results of operations. Further, to the extent that cost control initiatives have a material adverse effect on our corporate partners, our ability to commercialize our products may be adversely affected. Our ability to commercialize pharmaceutical products may depend, in part, on the extent to which reimbursement for the products will be available from government health administration authorities, private health insurers and other third-party payers. Significant uncertainty exists as to the reimbursement status of newly approved healthcare products, and third-party payers, including Medicare, frequently challenge the prices charged for medical products and services. In addition, third-party insurance coverage may not be available to subjects for any products developed by us. Government and other third-party payers are attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new therapeutic products and by refusing in some cases to provide coverage for uses of approved products for disease indications for which the FDA has not granted labeling approval. If government and other third-party payers for our products do not provide adequate coverage and reimbursement levels, the market acceptance of these products would be adversely affected.

If the users of the products that we are developing claim that our products have harmed them, we may be subject to costly and damaging product liability litigation, which could have a material adverse effect on our business, financial condition and results of operations.

The use of any of our potential products in clinical studies and the sale of any approved products, including the testing and commercialization of alagebrium or other compounds, may expose us to liability claims resulting from the use of products or product candidates. Claims could be made directly by participants in our clinical studies, consumers, pharmaceutical companies or others. We maintain product liability insurance coverage for claims arising

13

from the use of our products in clinical studies. However, coverage is becoming increasingly expensive, and we may not be able to maintain or acquire insurance at a reasonable cost or in sufficient amounts to protect us against losses due to liability that could have a material adverse effect on our business, financial condition and results of operations. We may not be able to obtain commercially reasonable product liability insurance for any product approved for marketing in the future, and insurance coverage and our resources may not be sufficient to satisfy any liability resulting from product liability claims. A successful product liability claim or series of claims brought against us could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the Merger

Alteon s ability to continue as a going concern is dependent on future financing.

J.H. Cohn LLP, our independent registered public accounting firm, has included an explanatory paragraph in its report on our financial statements for the fiscal year ended December 31, 2005, which expresses substantial doubt about our ability to continue as a going concern. The inclusion of a going concern explanatory paragraph in J.H. Cohn LLP s report on our financial statements could have a detrimental effect on our stock price and our ability to raise additional capital, either alone or as a combined company.

Our financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have not made any adjustments to the financial statements as a result of the outcome of the uncertainty described above. Accordingly, the value of the combined company in liquidation may be different from the values set forth in our financial statements.

If the merger is not completed, the liquidation preference associated with the shares of Alteon preferred stock owned by Genentech and the substantial common stock ownership represented by these preferred shares, on an as-converted basis, will make it unlikely that the combined company will be able to obtain additional funding. The continued success of the combined company will depend on its ability to continue to raise capital in order to fund the development and commercialization of its products.

Failure to raise additional capital may result in substantial adverse circumstances, including delisting of our common stock shares from the American Stock Exchange, which could substantially decrease the liquidity and value of such shares, or ultimately result in the liquidation of the combined company.

Alteon and HaptoGuard have each historically incurred operating losses and these losses will continue after the merger.

Alteon and HaptoGuard have each historically incurred substantial operating losses due to their research and development activities and expect these losses to continue after the merger for the foreseeable future. As of December 31, 2005, Alteon and HaptoGuard had an accumulated deficit of approximately $222,813,445 and $2,425,258, respectively. Alteon s fiscal year 2005, 2004 and 2003 net losses were $12,614,459, $13,958,646, and $14,452,418, respectively. HaptoGuard s fiscal year 2005 and 2004 net losses were $1,654,695 and $770,563, respectively. Alteon s fiscal year 2005, 2004 and 2003 net losses applicable to common stockholders were $17,100,795, $18,093,791 and $18,243,265, respectively. The combined company currently expects to continue its research and development activities at the same or at a more rapid pace than prior periods. After the merger, the combined company will expend significant amounts on research and development programs for alagebrium and ALT-2074. These activities will take time and expense, both to identify appropriate partners, to reach agreement on basic terms, and to negotiate and sign definitive agreements. We will actively seek new financing from time to time to provide financial support for our research and development activities. Any partnering agreements would required significant time and effort to identify potential partners, to reach agreement on basic terms and to negotiate and sign definitive agreements.

The combined company will need additional capital in the future, but its access to such capital is uncertain.

At this time we are not able to assess the probability of success in our fundraising efforts or the terms, if any, under which we may secure financial support from strategic partners or other investors. It is expected that we will continue to incur operating losses for the foreseeable future. Alteon s current resources are insufficient to fund its own commercialization efforts as well as the combined company s commercialization efforts. As of March 31, 2006, Alteon had cash on hand of $4,469,170. As described elsewhere in this prospectus, in April, 2006 we closed

14

Table of Contents

on approximately $2.6 million in financing. Prior to the financing, Alteon was expending approximately $450,000 in cash per month. Following the merger, including HaptoGuard s cash spending rate of approximately $110,000 in cash per month, the combined company expects to spend approximately $560,000 in cash per month. Our capital needs beyond the second quarter of 2006 will depend on many factors, including our research and development activities and the success thereof, the scope of our clinical trial program, the timing of regulatory approval for our products under development and the successful commercialization of our products. Our needs may also depend on the magnitude and scope of these activities, the progress and the level of success in our clinical trials, the costs of preparing, filing, prosecuting, maintaining and enforcing patent claims and other intellectual property rights, competing technological and market developments, changes in or terminations of existing collaboration and licensing arrangements, the establishment of new collaboration and licensing arrangements and the cost of manufacturing scale-up and development of marketing activities, if undertaken by the combined company. Other than the recently completed financing described in this prospectus, we do not have committed external sources of funding and may not be able to secure additional funding on any terms or on terms that are favourable to us. If we raise additional funds by issuing additional stock, further dilution to our existing stockholders will result, and new investors may negotiate for rights superior to existing stockholders. If adequate funds are not available, the combined company may be required to:

- delay, reduce the scope of or eliminate one or more of its development programs;
- obtain funds through arrangements with collaboration partners or others that may require it to relinquish rights to some or all of its technologies, product candidates or products that it would otherwise seek to develop or commercialize itself;
- license rights to technologies, product candidates or products on terms that are less favorable to it than might otherwise be available; or
- seek a buyer for all or a portion of its business, or wind down its operations and liquidate its assets on terms not favorable to it.

The success of the combined company will also depend on the products and systems under development by HaptoGuard, including ALT-2074, and we cannot assure you that the efforts to commercialize ALT-2074 will succeed.

ALT-2074, HaptoGuard s lead compound, is in development for the treatment of heart complications in patients with diabetes. It has demonstrated efficacy in mouse models.

ALT-2074 is still in early clinical trials and any success to date should not be seen as indicative of the probability of any future success. The failure to complete clinical development and commercialize ALT-2074 for any reason or due to a combination of reasons will have a material adverse impact on the combined company.

We are dependent on the successful outcome of clinical trials and will not be able to successfully develop and commercialize products if clinical trials are not successful.

HaptoGuard received approval from Israel s Ministry of Health to conduct Phase 2 trials in diabetic patients recovering from a recent myocardial infarction or acute coronary syndrome. The purpose of the study is to evaluate the biological effects on cardiac tissue in patients treated with ALT-2074. HaptoGuard has received Institutional Review Board approval for 3 sites in Israel. HaptoGuard recently withdrew its submission to request approval to conduct Phase 2 clinical trials in the Czech Republic in order to have the time to generate a response to the Czech Republic s request for additional data on drug stability. The failure of either Alteon or HaptoGuard to obtain approvals to conduct clinical trials would adversely affect the combined company s business.

None of Alteon s or HaptoGuard s product candidates are currently approved for sale by the FDA or by any other regulatory agency in the world, and may never receive approval for sale or become commercially viable. Before obtaining regulatory approval for sale, each of the combined company s product candidates will be subjected to extensive preclinical and clinical testing to demonstrate safety and efficacy for a particular indication for humans

15

Table of Contents

in addition to meeting other regulatory standards. The combined company s success will depend on the successful outcome of clinical trials for one or more product candidates.

There are a number of difficulties and risks associated with clinical trials. The possibility exists that:

we may discover that a product candidate may cause, alone or in combination with another therapy, harmful side effects;

we may discover that a product candidate, alone or in combination with another therapy, does not exhibit the expected therapeutic results in humans;

results from early trials may not be statistically significant or predictive of results that may be obtained from large-scale, advanced clinical trials;

we, the FDA, other similar foreign regulatory agencies or an institutional review board may suspend clinical trials for any reason whatsoever;

patient recruitment may be slower than expected;

patients may drop out of our clinical trials; and

we may be unable to produce sufficient supplies of products in a timely fashion for clinical trials.

Given the uncertainty surrounding the regulatory and clinical trial process, we may not be able to develop safety, efficacy or manufacturing data necessary for approval for any product candidate. In addition, even if we receive approval, such approval may be limited in scope and hurt the commercial viability of such product. If the combined company is unable to successfully obtain approval of and commercialize a product, this would materially harm the business, impair our ability to generate revenues and adversely impact our stock price.

The combined company is subject to significant government regulation and failure to achieve regulatory approval of our drug candidates would harm our business.

The FDA regulates the development, testing, manufacture, distribution, labeling and promotion of pharmaceutical products in the United States pursuant to the Federal Food, Drug, and Cosmetic Act and related regulations. We must receive pre-market approval by the FDA prior to any commercial sale of any drug candidates. Before receiving such approval, we must provide preclinical data and proof in human clinical trials of the safety and efficacy of our drug candidates, which trials can take several years. In addition, we must show that we can produce any drug candidates consistently at quality levels sufficient for administration in humans. Pre-market approval is a lengthy and expensive process. We may not be able to obtain FDA approval for any commercial sale of any drug candidate. By statute and regulation, the FDA has 180 days to review an application for approval to market a drug candidate; however, the FDA frequently exceeds the 180-day time period, at times taking up to 18 months. In addition, based on its review, the FDA or other regulatory bodies may determine that additional clinical trials or preclinical data are required. Except for any potential licensing or marketing arrangements with other pharmaceutical or biotechnology companies, we will not generate any revenues in connection with any of our other drug candidates unless and until we obtain FDA approval to sell such products in commercial quantities for human application.

Even if the combined company s products receive approval for commercial sale, their manufacture, storage, marketing and distribution are and will be subject to extensive and continuing regulation in the United States by the federal government, especially the FDA, and state and local governments. The failure to comply with these regulatory requirements could result in enforcement action, including, without limitation, withdrawal of approval, which would have a material adverse effect on the combined company s business. Later discovery of problems with the combined company s products may result in additional restrictions on the product, including withdrawal of the product from the market. Regulatory authorities may also require post-marketing testing, which can involve significant uncontemplated expense. Additionally, governments may impose new regulations, which

16

Table of Contents

could further delay or preclude regulatory approval of the combined company s products or result in significantly increased compliance costs.

In similar fashion to the FDA, foreign regulatory authorities require demonstration of product quality, safety and efficacy prior to granting authorization for product registration which allows for distribution of the product for commercial sale. International organizations, such as the World Health Organization, and foreign government agencies including those for the Americas, Middle East, Europe, and Asia and the Pacific, have laws, regulations and guidelines for reporting and evaluating the data on safety, quality and efficacy of new drug products. Although most of these laws, regulations and guidelines are very similar, each of the individual nations reviews all of the information available on the new drug product and makes an independent determination for product registration. A finding of product quality, safety or efficacy in one jurisdiction does not guarantee approval in any other jurisdiction, even if the other jurisdiction has similar laws, regulations and guidelines.

Failure to integrate the companies operations successfully could result in delays and increased expenses in the companies clinical trial programs.

Alteon and HaptoGuard have entered into the merger agreement with the expectation that the merger will result in beneficial synergies, including:

improved ability to raise new capital through access to new classes of investors focused on public companies engaged in small molecule drug development;

shared expertise in developing innovative small molecule drug technologies and the potential for technology collaboration;

a broader pipeline of products;

greater ability to attract commercial partners;

larger combined commercial opportunities; and

a broader portfolio of patents and trademarks.

Achieving these anticipated synergies and the potential benefits underlying the two companies reasons for the merger will depend on a number of factors, some of which include:

retention of scientific staff;

significant litigation, if any, adverse to Alteon and HaptoGuard, including, particularly, product liability litigation and patent and trademark litigation; and

the ability of the combined company to continue development of Alteon and HaptoGuard product candidates;

success of our research and development efforts;

increased capital expenditures;

general market conditions relating to small cap biotech investments; and

competition from other drug development companies.

Achieving the benefits of the merger will depend in part on the successful integration of Alteon and HaptoGuard in a timely and efficient manner. The integration will require significant time and efforts from each

Table of Contents

company, including the coordination of research, development, regulatory, manufacturing, commercial, administrative and general functions. Integration may be difficult and unpredictable because of possible cultural conflicts and different opinions on scientific and regulatory matters. Delays in successfully integrating and managing employee benefits could lead to dissatisfaction and employee turnover. The combination of Alteon s and HaptoGuard s organizations may result in greater competition for resources and elimination of research and development programs that might otherwise be successfully completed. If we cannot successfully integrate our operations and personnel, we may not recognize the expected benefits of the merger.

Even if the two companies are able to integrate their operations, there can be no assurance that these anticipated synergies will be achieved. The failure to achieve such synergies could have a material adverse effect on the business, results of operations and financial condition of the combined company.

Integrating Alteon and HaptoGuard may divert management s attention away from our core research and development activities.

Successful integration of our operations, products and personnel may place a significant burden on our management and our internal resources. The diversion of management s attention and any difficulties encountered in the transition and integration process could result in delays in the companies clinical trial programs and could otherwise significantly harm our business, financial condition and operating results.

We expect to incur significant costs integrating our operations, product candidates and personnel, which cannot be estimated accurately at this time. These costs include:

severance;

conversion of information systems;

combining research, development, regulatory, manufacturing and commercial teams and processes;

reorganization of facilities; and

relocation or disposition of excess equipment.

We expect that Alteon and HaptoGuard will incur aggregate direct transaction costs of approximately $800,000 associated with the merger. If the total costs of the merger exceed our estimates or benefits of the merger do not exceed the total costs of the merger, the financial results of our combined company could be adversely affected.

Completion of, or the failure to complete, the merger could adversely affect Alteon s stock price and Alteon s and HaptoGuard s future business and operations.

The merger is subject to the satisfaction of various closing conditions, including the approval by both Alteon and HaptoGuard stockholders, and there can be no assurance that the merger will be successfully completed. In the event that the merger is not consummated, Alteon and HaptoGuard will be subject to many risks, including the costs related to the merger, such as legal, accounting and advisory fees, which must be paid even if the merger is not completed, or the payment of a termination fee under certain circumstances. If the merger is not consummated for any reason, the market price of Alteon common stock could decline.

The shares of the combined company are publicly traded and we cannot predict how the market will react to the merger of Alteon and HaptoGuard. Even the successful completion of the merger may negatively affect the stock price of the combined company, if the market were to come to the view that Alteon would be in a better position absent completion of the merger.

Table of Contents

The combined company will remain dependent on third parties for research and development and manufacturing activities necessary to commercialize certain of our patents.

We utilize the services of several scientific and technical consultants to oversee various aspects of our protocol design, clinical trial oversight and other research and development functions. Alteon and HaptoGuard both contract out most of our research and development operations, utilize third-party contract manufacturers for drug inventory and shipping services and third-party contract research organizations in connection with preclinical and/or clinical studies in accordance with our designed protocols, as well as conducting research at medical and academic centers.

Because we rely on third parties for much our research and development work and manufacturing, we have less direct control over our research and development and manufacturing. We face risks that these third parties may not be appropriately responsive to our time frames and development needs and could devote resources to other customers. In addition, certain of these third parties may have to comply with FDA regulations or other regulatory requirements in the conduct of this research and development work, which they may fail to do.

If the combined company does not successfully distinguish and commercialize its technology, it may be unable to compete successfully or to generate significant revenues.

The biotechnology industry, including the field of small molecule drugs to treat and prevent cardiovascular disease and diabetes, is highly competitive and subject to significant and rapid technological change. Accordingly, the combined company s success will depend, in part, on its ability to respond quickly to such change through the development and introduction of new products and systems.

The combined company will have substantial competition, including competitors with substantially greater resources.

Many of the combined company s competitors or potential competitors have substantially greater financial and other resources than Alteon has and may also have greater experience in conducting pre-clinical studies, clinical trials and other regulatory approval procedures as well as in marketing their products. Major competitors in the market for our potential products include large, publicly-traded pharmaceutical companies, public development stage companies and private development stage companies. If the combined company or its corporate partners commence commercial product sales, the combined company or its corporate partners will be competing against companies with greater marketing and manufacturing capabilities.

The combined company s ability to compete successfully against currently existing and future alternatives to its product candidates and systems, and competitors who compete directly with it in the small molecule drug industry will depend, in part, on its ability to:

attract and retain skilled scientific and research personnel;

develop technologically superior products;

develop competitively priced products;

obtain patent or other required regulatory approvals for the combined company s products;

be early entrants to the market; and

manufacture, market and sell its products, independently or through collaborations.

The success of the combined company is dependent on the extent of third-party reimbursement for its products.

Third-party reimbursement policies may also adversely affect the combined company s ability to commercialize and sell its products. The combined company s ability to successfully commercialize its products depends in part on the extent to which appropriate levels of reimbursement for its products and related treatments are obtained from government authorities, private health insurers, third party payers, and other organizations, such

Table of Contents

as managed care organizations, or MCOs. Any failure by doctors, hospitals and other users of the combined company s products or systems to obtain appropriate levels of reimbursement could adversely affect the combined company s ability to sell these products and systems.

Federal legislation, enacted in December 2003, has altered the way in which physician-administered drug programs covered by Medicare are reimbursed, generally leading to lower reimbursement levels. The new legislation has also added an outpatient prescription drug benefit to Medicare, effective January 2006. In the inter