ATLANTIC TECHNOLOGY VENTURES INC
Form 10KSB
April 17, 2001

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

FORM 10-KSB

[x] Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___to___

Commission File Number 0-27282

ATLANTIC TECHNOLOGY VENTURES, INC.
(Exact name of issuer as specified in its charter)

Delaware	36-3898269
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

350 Fifth Avenue, Suite 5507, New York, New York 10118
(Address of principal executive offices, including zip code)

(212) 267-2503
(Issuer's telephone number)

Securities registered pursuant to Section 12(g) of the Exchange Act:

Units, each consisting of one share of Common Stock and one Redeemable Warrant

Common Stock, $.001 par value
Redeemable Warrants

Indicate by check mark whether the issuer (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 issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

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

The issuer's revenues for the fiscal year ended December 31, 2000 were $5,358,946.

As of March 16, 2001 there were 6,458,424 outstanding shares of common stock, par value $.001 per share.

The aggregate market value of the voting common stock of the issuer held by non-affiliates of the issuer on March 16, 2001 based on the closing price of the

common stock as quoted by the Nasdaq SmallCap Market on such date was $4,642,315.

Transitional Small Business Disclosure Format: Yes __ No X
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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

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

- identify early biomedical, pharmaceutical, electronic infrastructure, software, communications or other technologies that we believe could be commercially viable;

- acquire proprietary rights to these technologies, either by license or by acquiring an ownership interest;

- fund research and development of these technologies; and

- bring these technologies to market, either directly or by selling or licensing these technologies to other companies willing to make the necessary investment to conduct the next level of research or seek required regulatory approvals.

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

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

CORPORATE STRUCTURE

We were incorporated in Delaware on May 18, 1993. Each of our technologies, or royalty rights, is held either by Atlantic or by our subsidiaries Optex Ophthalmologics, Inc., or "Optex," and Gemini Technologies, Inc., or "Gemini."

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

ATLANTIC AND ITS SUBSIDIARIES

Optex and the Catarex Technology

Our majority-owned (81.2%) subsidiary, Optex, is entitled to royalties and other revenues in connection with commercialization of Catarex technology. Bausch & Lomb, a multinational ophthalmics company, is developing this technology to overcome the limitations and deficiencies of traditional cataract extraction techniques. Optex had been the owner of this technology, and was developing it pursuant to a development agreement with Bausch & Lomb, but on March 2, 2001, Optex sold to Bausch & Lomb substantially all of its assets, including those related to the Catarex technology.

Relationship with Bausch & Lomb

In May 1998, Optex entered into a development and licensing agreement

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

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

Pursuant to an asset purchase agreement dated January 31, 2001, between Bausch & Lomb, a Bausch & Lomb affiliate, Atlantic, and Optex, on March 2, 2001, Optex sold to Bausch & Lomb substantially all its assets, including all those related to the Catarex technology. The purchase price was $3 million paid at closing. In addition, Optex is entitled to receive additional consideration, namely $1 million once Bausch & Lomb receives regulatory approval to market the Catarex device in Japan, royalties on net sales on the terms stated in the original development agreement dated May 14, 1998, between Bausch & Lomb and Optex, as amended, and minimum royalties of $90,000, $350,000, and $750,000 for the first, second, and third years, respectively, starting on first commercial use of the Catarex device or January 1, 2004, whichever is earlier. Optex also has the option to repurchase the acquired assets from Bausch & Lomb if it ceases developing the Catarex technology. Upon the sale, Bausch & Lomb's development agreement with Optex was terminated. As of December 31, 2000, and including the $3 million purchase price of Optex assets received on March 2, 2001, Bausch & Lomb payments to Optex have totaled $14,028,377, of which $6,750,360 was realized as net profit to Optex. Management believes that Bausch & Lomb will aggressively pursue commercialization of the assets purchased.

Cataracts and Current Cataract-Removal Technology

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

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

then removed using a mechanical irrigation/aspiration device. Once the lens is completely removed, an intraocular synthetic polymer lens is inserted into the eye and placed in the remaining portion of the lens capsule.

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

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

The Catarex Device and its Applications

The Catarex device removes the lens nucleus and cortex in a single step through a small incision in the eye while leaving the lens capsule functionally intact. The Catarex device is inserted into the eye through an incision of less than 3mm and advanced into the lens capsule through a less than 1.5mm incision. Once positioned within the lens capsule, the device is activated and the lens nucleus and cortex are removed in a matter of minutes through the action of fluid vortex forces drawing the lens material to the device, where it is mechanically emulsified and aspirated. A synthetic lens would then be placed in the capsule; given the limitations of currently available intraocular lenses, the incision in the lens capsule would need to be slightly enlarged.

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

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

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

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

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

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

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

CT-3 Technology

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

Background

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

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

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

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

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

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

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

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

The CT-3 Technology and Its Applications

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

CT-3 is a chirally pure carboxylic derivative of the major active ingredient of marijuana, (DELTA)9 tetrahydrocannabinol (THC). CT-3 is a new chemical entity and was designed to have increased anti-inflammatory and analgesic properties and reduced psychotropic activity compared to the THC parent. Animal studies have shown that CT-3 lacks the ulcer causing side effects of NSAIDs. Animal studies using dosages significantly higher than the anticipated therapeutic dose of CT-3 have indicated a lack of central nervous system side effects (psychoactivity), and we believe that CT-3 provides anti-inflammatory and analgesic effects without the psychoactive effects of THC.

Also, a clinical trial designed to measure the safety and pharmacokinetics of CT-3 resulted in no clinically relevant-adverse events and no evidence of marijuana-like psychoactivity. Several in vitro studies have indicated that CT-3 acts by inhibiting and reducing the release or synthesis of several different mediators of inflammation including cytokines, metalloproteinases, leukotrines, and cylcooxygenases. In addition, tests in an in vivo model of rheumatoid arthritis have shown CT-3 to have significant anti-inflammatory effects, including the potential to reduce the amount of joint destruction caused by rheumatism. Subsequent studies have substantiated these findings and have demonstrated that CT-3 can minimize the effects of adjuvant-induced arthritis in rats. We also believe that it is not yet known whether this compound is more clinically effective than traditional NSAIDs, corticosteroids, COX-2 inhibitors and the variety of potential competitor compounds in late preclinical and early clinical development. The preliminary data therefore suggest that CT-3 appears to have significant potential for therapeutic benefit in the treatment of chronic pain and inflammation that potentially lacks the major side effects of traditional anti-inflammatory drugs and analgesics.

Research and Development Activities

Atlantic is developing CT-3 as the lead compound in the series of patented compounds. CT-3 has been tested in a Phase I clinical trial and in many pre-clinical in vitro and in vivo studies to profile its potential activity and to evaluate its usefulness in treating medical conditions. This evaluation process started with a focus on analgesic and anti-inflammatory processes and has been broadened to include musculoskeletal disorders, neurological disorders, gastrointestinal disorders, psychiatric disorders, glaucoma, and cancer.

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

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

In addition, in the fourth quarter of 2000, we were issued a new US patent 6,162,829 that covers the use of analogs of CT-3 as analgesic or anti-inflammatory agents.

Competition

The market for the treatment of chronic pain and inflammation is large and highly competitive. Several multinational pharmaceutical companies currently have many popular products in this market and many companies have active research programs to identify and develop more potent and safer anti-inflammatory and analgesic agents. One notable area of research is in the development of "COX-2 inhibitors," which are claimed to be safer to the stomach than available NSAIDs. (COX-2 inhibition is not considered a significant contributor to the mechanism of action of CT-3; in vitro studies have shown very

weak COX-2 inhibition.) Two COX-2 inhibitor compounds have recently received FDA approval and several others are in various stages of clinical development. We believe that the potential advantages of CT-3 make it worth developing, and that if we succeed, CT-3 could become a significant new agent in the treatment of pain and inflammation.

Proprietary Rights

We have an exclusive worldwide license to four U.S. patents and corresponding foreign applications covering a group of compounds, including CT-3. The licensor is Dr. Sumner Burstein, a professor at the University of Massachusetts. This license extends until the expiration of the underlying patent rights. The primary U.S. patent expires in 2012 and the new analog patent 6,162829 expires in 2017. We have the right under this license to sublicense our rights under the license. The license requires that we pay royalties to Dr. Burstein based on sales of products and processes incorporating technology licensed under the license, as well as a percentage of any income derived from any sublicense of the licensed technology. Furthermore, pursuant to the terms of the license, we must satisfy certain other terms and conditions in order to retain the license rights. If we fail to comply with certain terms of the license, our license rights under the license could be terminated.

Gemini and the 2-5A Antisense Technology

On August 14, 2000, Gemini Technologies, Inc., our subsidiary, was awarded a Small Business Innovation Research (SBIR) Phase II grant to continue its research on antisense enhancing technology by the National Institute for Allergy and Infectious Diseases (NIAID), a unit of the National Institutes of Health (NIH). The grant, which totals approximately $750,000, will be used to fund a pre-clinical efficacy study using aerosolized 2-5A antisense compound for the inhibition of respiratory syncytial virus (RSV) in monkeys. It also will provide funds for the toxicological and pharmacological studies needed to file an investigational new drug (IND) application with the FDA to begin clinical studies in humans.

This research is intended to build upon research previously published in the Proceedings of the National Academy of Sciences (PNAS) Vol. 95, July 1998, that documented the compound's effectiveness against a broad spectrum of RSV strains. Data collected to date indicate that the molecule to be tested has 130 times greater in vitro potency than Ribavarin (Virazole), one of two FDA-approved treatments for RSV infections (the other treatment is a monoclonal antibody recommended for use in high-risk infants only). This molecule has also been shown to be stable against degradative enzymes, and is capable of being absorbed into lung tissue when administered in a droplet formulation.

Our Diversification Strategy

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

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

The purchase price for our ownership interest was $5 million in cash, 200,000 shares of our common stock and a warrant to purchase 200,000 shares of

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

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

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

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

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

EMPLOYEES

We currently have six employees.

FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-KSB that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities

Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies regarding the future. We intend that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our views as of the date they are made with respect to future events and financial performance, but are subject to many risks and uncertainties, which could cause actual results to differ materially from any future results expressed or implied by such forward-looking statements. Examples of such risks and uncertainties include the risks detailed below. We do not undertake to update any forward-looking statements.

RECENT DEVELOPMENTS

Sale of Optex Assets

On March 2, 2001, Optex Ophthalmologics, Inc., our 81.2%-owned subsidiary, sold substantially all of its assets, including those related to the Catarex technology, to Bausch & Lomb Incorporated for an initial payment of $3 million and ongoing royalty payment obligations upon product commercialization. For further details, see "Description of Business--Atlantic and Its Subsidiaries--Optex and the Catarex Technology."

Repurchase of Series B Preferred Stock

On March 9, 2001, we repurchased from BH Capital Investments, L.P. and Excalibur Limited Partnership, for an aggregate purchase price of $617,067, all 165,518 shares of our Series B convertible preferred stock held by the investors. On December 4, 2000, we repurchased 482,758 shares of Series B preferred stock. Our repurchase of the remaining shares of Series B preferred stock and termination of our obligations under the purchase agreement with the investors represent the last in a series of transactions relating to that purchase agreement. For further details, see "Market for Common Equity and Related Stockholder Matters--Recent Sales of Unregistered Securities," as well as our Quarterly Report on Form 10-QSB for the quarter ended September 30, 2000,

and our Current Reports on Form 8-K filed with the SEC on December 11, 2000, December 29, 2000, January 24, 2001, January 30, 2001, and March 14, 2001.

Common Stock Purchase Agreement with Fusion Capital Fund II, LLC

On March 16, 2001, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to $6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. The selling price of the shares will be equal to the lesser of (1) $20.00 or (2) a price based upon the future market price of the common stock, without any fixed discount to the market price. For further details, see our registration statement on Form S-3 filed with the SEC on March 25, 2001. However, Nasdaq delisting would constitute an event of default under the purchase agreement with Fusion Capital, and Fusion Capital would no longer be obligated to purchase our common stock.

Risk of Delisting

We risk being delisted from the Nasdaq SmallCap Market. March 20, 2001, marked the thirtieth consecutive business day that the minimum bid price of our common stock was less than $1.00. This constitutes a failure on our part to meet Nasdaq's continued inclusion requirement for minimum bid price. On March 22,

2001, Nasdaq notified us of this failure, and we have a period of 90 calendar days from that notice to comply with the continued inclusion standard for minimum bid price. We can do so by meeting the standard for a minimum of 10 consecutive business days during the 90 day compliance period.

In addition, the consolidated financial statements included with this Annual Report show that on December 31, 2000, our net tangible assets were less than $2 million. Consequently, we expect to receive a deficiency notice from Nasdaq notifying us that we have ten days to submit a plan to achieve and sustain long-term compliance with all applicable listing criteria. If Nasdaq is not satisfied with the plan that we submit or if we do not submit a plan, we will then receive a staff determination from Nasdaq. Upon receipt of the staff determination, we will have seven days to appeal the staff determination and request a hearing before Nasdaq's Listing Qualifications Panel (the "panel"), and such request will generally stay the delisting pending a determination by the panel (called a "panel decision"). Failure to request a hearing within seven calendar days will result in automatic delisting.

For more details regarding delisting and its significance, see "Risk Factors--Our Securities."

RISK FACTORS

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

Our Financial Condition and Need for Substantial Additional Funding

Our future profitability is uncertain.

We were incorporated in 1993, and we have incurred significant operating losses in each of our fiscal years since then. As of December 31, 2000, our accumulated deficit was approximately $24.8 million. We have not completed developing any of our products or generated any product sales. All of our technologies are in the research and development stage, which requires substantial expenditures. Our operating loss from inception consists of milestone payments and development revenue, including a profit component, by Bausch & Lomb in connection with development of the Catarex device, and a government grant. In March 2001, we received $2.4 million of net proceeds from the sale of substantially all of the assets of Optex Ophthalmologics, Inc., our 81.2%-owned subsidiary. We do not expect to generate any additional revenues in the near future. We expect to incur significant operating losses over the next several years, primarily due to continued and expanded research and development programs, including preclinical studies and clinical trials for our products and technologies under development, as well as costs incurred in identifying and possibly acquiring additional technologies.

We will need additional funding, and it may not be available.

As of December 31, 2000, we had a cash and cash equivalents balance of approximately $2.7 million. We will require substantial additional resources to continue to develop and test our potential products, to obtain regulatory approvals, to manufacture and commercialize any products that we may develop, and to license new technologies.

We will need to obtain additional funding through public or private equity or debt financings, through collaborative arrangements or from other sources

(including exercise of the warrants we have issued giving the holder the right to purchase shares of our capital stock for a stated exercise price). Additional financing sources may not be available on acceptable terms, if at all. If adequate funds are not available, we may need to reduce significantly our spending and delay, scale back or eliminate one or more of our research, discovery or development programs.

Our Operations

We depend on others to conduct clinical development, obtain regulatory approvals, and manufacture and commercialize our technologies.

We do not have the resources to directly conduct full clinical development, obtain regulatory approvals, manufacture or commercialize any of our proposed products and we have no current plans to acquire such resources. We anticipate that we may enter into collaborative agreements for the research and development, clinical testing, seeking of regulatory approval, manufacturing or commercialization of our proposed products. In addition, collaborative agreements we do enter into could limit our control over the resources devoted to these activities as well as our flexibility in considering alternatives for the commercialization of the products involved.

We may not succeed in developing commercially viable products.

To be profitable, we must, alone or with others, successfully commercialize our technologies. They are, however, in early stages of development, will require significant further research, development and testing, and are subject to the risks of failure inherent in the development of products based on innovative or novel technologies. Each of the following is possible with respect to any one of our products:

- that we will not be able to maintain our current research and development schedules;
- that, in the case of one of our pharmaceutical technologies, we will not be able to enter into human clinical trials because of scientific, governmental or financial reasons, or encounter problems in clinical trials that will cause us to delay or suspend development of one of the technologies;
- that it will be found to be ineffective or unsafe;
- that it will fail to meet applicable regulatory standards; or
- that it will fail to obtain required regulatory approvals.

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

- it is uneconomical;
- in the case of one of our pharmaceutical technologies or the Catarex device, it is not eligible for third-party reimbursement from government or private insurers;
- others hold proprietary rights that preclude us from commercializing it;
- others have brought to market equivalent or superior products;
- others have superior resources to market similar products or

technologies; or

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

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

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

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

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

Government regulations may prevent us from commercializing one or more of our technologies, or may delay commercialization or make it more expensive.

The federal government, principally the FDA, and comparable agencies in state and local jurisdictions and in foreign countries extensively and rigorously regulates all new drugs and medical devices, including our products and technologies under development. These authorities, particularly the FDA, impose substantial requirements upon preclinical and clinical testing, manufacturing and commercialization of pharmaceutical and medical device products.

There are many costly and time-consuming procedures required for approval of a new drug, including lengthy and detailed preclinical and clinical testing and validation of manufacturing and quality control processes. Several years may be needed to satisfy these requirements, and this time period may vary substantially depending on the type, complexity and novelty of the product candidate. Government regulation can delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. Moreover, the FDA or other regulatory agency may not grant approval for any products developed or not grant approval on a timely basis, and success in preclinical or early stage clinical trials does not assure success in later stage clinical trials.

Data obtained from preclinical and clinical activities are susceptible to varying interpretations. This could delay, limit or prevent regulatory approval. Even if regulatory approval of a product is granted, limitations may be imposed on the indicated uses of a product. Further, later discovery of previously unknown problems with a product may result in added restrictions on the product, including withdrawal of the product from the market. Any delay or failure in obtaining regulatory approvals would materially and adversely affect our

business, financial condition and results of operations.

A drug and medical device manufacturer (either us or one of our third-party manufacturers) must conform to Good Manufacturing Practices, or "GMP," regulations, which the FDA enforces strictly through their facilities inspection programs. Contract manufacturing facilities must pass a pre-approval inspection of their manufacturing facilities before the FDA will approve a New Drug Application, or "NDA." Certain material manufacturing changes that occur after approval are also subject to FDA review and clearance or approval. FDA or other regulatory agencies may not approve the process or the facilities by which any of our products may be manufactured. Our dependence on others to manufacture our products may adversely affect our ability to develop and deliver products on a timely and competitive basis. If we are required to manufacture our own products we will be required to build or purchase a manufacturing facility, will be subject to the regulatory requirements described above, to similar risks

regarding delays or difficulties encountered in manufacturing any such products and will require substantial additional capital. We may be unable to manufacture any such products successfully or in a cost-effective manner.

The FDA's policies may change and additional government regulations and policies may be instituted, both of which could prevent or delay regulatory approval of our potential products. Moreover, increased attention to the containment of health care costs in the U.S. could result in new government regulations that could materially and adversely affect our business. We are unable to predict the likelihood of adverse governmental regulations that could arise from future legislative or administrative action, either in the U.S. or abroad.

We will also be subject to a variety of foreign regulations governing clinical trials, registration and sales of our products. Regardless of whether FDA approval is obtained, approval of a product by comparable regulatory authorities of foreign countries must be obtained prior to marketing the product in those countries. The approval process varies from country to country and the time needed to secure approval may be longer or shorter than that required for FDA approval. Delays in the approval process or failure to obtain such foreign approvals would materially and adversely affect our business, financial condition and results of operations.

We depend upon our key license agreements.

We have licensed our proprietary technology from others. If we do not meet our financial, development or other obligations under our license agreements in a timely manner, we could lose the rights to some or all of our proprietary technologies, which could materially and adversely affect our business and financial condition and results of operations.

Our rights to our 2-5A antisense technology are contingent on the Cleveland Clinic Foundation upholding its obligations to the National Institutes of Health with respect to 2-5A. We could lose our rights to 2-5A if the Cleveland Clinic fails to properly discharge its obligations to the National Institutes of Health. In addition, on May 8, 2000, the Cleveland Clinic Foundation filed a claim for arbitration before the American Arbitration Association to terminate its sublicense with Atlantic, claiming that we have breached the sublicense by failing to fulfill our obligations under the sublicense. We may lose this arbitration, and as a result lose our rights under the sublicense, or we may be forced to settle this arbitration on terms that are not entirely favorable to us.

We carry only a limited amount of product liability insurance.

If we develop and commercialize any products, through third-party arrangements or otherwise, we may be exposed to product liability claims. We intend to carry product liability insurance when we initiate the Phase I study of CT-3. Some of our license agreements require us to obtain product liability insurance when we begin clinical testing or commercialization of our proposed products and to indemnify our licensors against product liability claims brought against them as a result of the products developed by us. We may not be able to obtain such insurance at all, in sufficient amounts to protect us against such liability or at a reasonable cost. None of our licensors has made, nor is expected to make, any representations to us as to the safety or efficacy of the inventions covered by the license agreements or as to any products which may be made or used under rights granted therein. Product liability claims brought against us or a party that we are obligated to indemnify could materially and adversely affect our business, financial condition and results of operations.

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

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

Conflicts of interest could arise as a result of our directors serving on the boards of other companies.

Steve H. Kanzer and Peter O. Kliem serve as directors of other companies, and in the future other of our directors may from time to time serve as directors of other companies. If any of those companies compete with us, conflicts of interest could arise.

Our Securities

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

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

- that we maintain at least $2,000,000 in net tangible assets;
- that the minimum bid price for the common stock be at least $1.00 per share;
- that the public float consist of at least 500,000 shares of common

stock, valued in the aggregate at more than $1,000,000;

- that the common stock have at least two active market makers;
- that the common stock be held by at least 300 holders; and
- that we adhere to certain corporate governance requirements.

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

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

In addition, the financial statements included with this Annual Report show that on December 31, 2000, our net tangible assets were less than $2 million. Consequently, we expect to receive a deficiency notice from Nasdaq notifying us that we have ten days to submit a plan to achieve and sustain long-term compliance with all applicable listing criteria. If Nasdaq is not satisfied with the plan that we submit or if we do not submit a plan, we will then receive a staff determination from Nasdaq. Upon receipt of the staff determination, we will have seven days to appeal the staff determination and request a hearing before Nasdaq's Listing Qualifications Panel (the "panel"), and such request will generally stay the delisting pending a determination by the panel (called a "panel decision"). Failure to request a hearing within seven calendar days will result in automatic delisting.

If we were to be delisted, trading, if any, in the securities would thereafter be conducted in the over-the-counter market in the "pink sheets" or the National Association of Securities Dealers' "Electronic Bulletin Board." Consequently, the liquidity of our securities could be materially impaired, not only in the number of securities that could be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us, which could result in lower prices for our securities than might otherwise be attained and could also result in a larger spread between the bid and asked prices for our securities. In addition, if our securities were delisted it could materially and adversely affect our ability to raise funding.

In addition, if our securities are delisted from trading on NASDAQ and the trading price of our common stock is less than $5.00 per share, our common stock will become a "penny stock." Broker-dealers who sell penny

stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. It provides information about penny stocks and the nature and level of risks involved in investing in the penny-stock market. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser, and obtain the purchaser's written agreement to the purchase. In the event our securities are delisted, the penny stock rules may make it difficult for you to sell your shares of our stock. Because of the

rules, there is less trading in penny stocks. Also, many brokers choose not to participate in penny stock transactions.

Our being delisted would also constitute an event of default under our common stock purchase agreement with Fusion Capital Fund II, LLC.

Holders of our Series A preferred stock have rights superior to those of the holders of our common stock.

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

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

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

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

Our securities are relatively illiquid compared to securities traded on the principal trading markets.

Our securities are traded on the NASDAQ SmallCap Market and lack the liquidity of securities traded on the principal trading markets. Accordingly, an investor may be unable to promptly liquidate an investment in our securities. Similarly, the sale of a larger block of our securities could depress the price of our securities to a greater degree than a company that typically has a higher volume of trading in its securities.

The market price of our common stock may be highly volatile.

The market price of our common stock has been and is expected to continue to be highly volatile. Factors, including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, government regulation, developments or disputes relating to agreements, patents or proprietary rights, may have a significant impact on the market price of our stock. In addition, potential dilutive effects of future sales of shares of common stock by stockholders and by Atlantic, including Fusion Capital pursuant to this prospectus and subsequent sale of common stock by the holders of warrants and options could have an adverse effect on the prices of our securities.

The sale of our common stock to Fusion may cause dilution and the sale of the shares acquired by Fusion could cause the price of our common stock to decline.

The purchase price for the common stock to be issued to Fusion Capital Fund II, LLC, under our common stock purchase agreement with them will fluctuate based on the closing price of our common stock. See "Recent Developments" regarding our agreement with Fusion.

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

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

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

ITEM 2. Description of Property

Through January 31, 2002, we have leased space for our executive office at 150 Broadway, Suite 1009, New York, New York 10038, for a monthly lease payment of $967. On March 19, 2001, we moved into new offices at 350 Fifth Avenue, Suite 5507, New York, New York 10118. The lease for this space is for a term of two years and two and a half months with a monthly lease payment of $6,645.

Optex's lease of spaces at 27452 Calle Arroyo, San Juan Capistrano, California 92675, was transferred to B&L as of April 1, 2001, as part of the sale to Bausch & Lomb of substantially all of Optex's assets.

Gemini's lease of space at 11000 Cedar Avenue, Cleveland, Ohio 44106 ended on October 30, 2000. The space is now under a month-to-month rental agreement with monthly payments of $1,933. The new rental agreement will continue until Atlantic management makes a determination with regard to the 2-5A Antisense Technology.

To facilitate Atlantic's exploration of investment opportunities in fiber-optics, we are leasing space at One Executive Park East, 135 Bolton Road in the Town of Vernon, County of Tolland, Connecticut 06066. This lease is for a term of three years commencing May 17, 2000, with monthly lease payments of $1,000 through May 14, 2001 and thereafter $1,251 per month until May 14, 2003.

We believe that our existing facilities are adequate to meet our current requirements and that our insurance coverage adequately covers our interest in our leased spaces. We do not own any real property.

ITEM 3. LEGAL PROCEEDINGS

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

Claim for Arbitration Brought by Cleveland Clinic Foundation

Atlantic's subsidiary, Gemini, has an exclusive worldwide sublicense from the Cleveland Clinic Foundation to a U.S. patent and related patent applications, as well as corresponding foreign applications, relating to 2-5A chimeric antisense technology and its use for selective degradation of targeted RNA. On May 8, 2000, the Cleveland Clinic Foundation filed a claim for arbitration before the American Arbitration Association to terminate this sublicense, claiming that Gemini has breached the sublicense by failing to fulfill its obligations under the sublicense. Atlantic and the Cleveland Clinic Foundation are currently engaged in discussions aimed at settling this dispute. To that end, on April 5, 2001, the parties agreed to extend several arbitration deadlines pursuant to Rule 40 of the AAA Commercial Arbitration Rules.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

PART II

ITEM 5. Market for Common Equity and Related Stockholder Matters

Our common stock is listed on the Nasdaq SmallCap Market. The following table sets forth the high and low closing price for our common stock as quoted, in U.S. dollars, by Nasdaq during each quarter within the last two fiscal years:

Quarter Ended	High	Low
March 31, 1999	$3.125	$1.313
June 30, 1999	$2.469	$1.063
September 30, 1999	$2.375	$1.125
December 31, 1999	$2.25	$1.25
March 31, 2000	$10.625	$1.375
June 30, 2000	$6.375	$2.50
September 30, 2000	$5.00	$2.50

December 31,	2000	$3.313	$0.406

The number of holders of record of our common stock as of March 28, 2001 was 120. The number of beneficial stockholders of our common stock as of March 28, 2001 was 1,880.

We have not paid or declared any dividends on our common stock and we do not anticipate paying dividends on our common stock in the foreseeable future. The Certificate of Designations for our Series A preferred stock provides that we may not pay dividends on our common stock unless a special dividend is paid on our Series A preferred stock.

RECENT SALES OF UNREGISTERED SECURITIES

Issuance to BH Capital Investments, L.P. and Excalibur Limited Partnership

On September 28, 2000, pursuant to a convertible preferred stock and warrants purchase agreement (the "purchase agreement"), we issued to BH Capital Investments, L.P. and Excalibur Limited Partnership (together, the "Investors") for a purchase price of $2,000,000, 689,656 shares of our Series B convertible preferred stock (the "Series B preferred stock") and warrants to purchase 134,000 shares of our common stock. Half of the shares of Series B preferred stock (344,828 shares) and warrants to purchase half of the shares of common stock (67,000 shares) were held in escrow, along with half of the purchase price.

On December 4, 2000, Atlantic and the Investors entered into a stock repurchase agreement (the "stock repurchase agreement") pursuant to which we repurchased from the Investors for $500,000, 137,930 shares of Series B preferred stock, and agreed to the release from escrow to the Investors of the $1,000,000 purchase price of the 344,828 shares of Series B preferred stock held in escrow. We also allowed the Investors to keep all of the warrants issued under the purchase agreement and issued to the Investors warrants to purchase a further 20,000 shares of our common stock at the same exercise price.

The issuance of the shares of Series B preferred stock and warrants did not involve any public offering and therefore was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

The warrants are exercisable at the fixed exercise price or 110% of the market price 180 days after the date of issuance, whichever is lower. Pursuant to a second amendment to the purchase agreement, executed on January

9, 2001, the fixed exercise price of the warrants was lowered from $3.19, the fixed exercise price upon their issuance, to $1.00, the market price of our common stock at the time of the renegotiations. Each warrant may be exercised any time during the five years from the date of granting. The warrants may not be exercised if doing so would result in our issuing a number of shares of common stock in excess of the limit imposed by the rules of the Nasdaq SmallCap Market.

Holders of shares of our outstanding Series B preferred stock can convert each share into shares of common stock without paying Atlantic any cash. The conversion price per share of the Series B preferred stock was also amended by the second amendment to the purchase agreement. The conversion price per share of Series B preferred stock on any given day is the lower of (1) $1.00 or (2)

90% of the average of the two lowest closing bid prices on the principal market of the common stock out of the fifteen trading days immediately prior to conversion, but the conversion price will be reduced by an additional 5% if the common stock is not listed on either the Nasdaq SmallCap Market or Nasdaq National Market as of that date, and in no event will the conversion price be lower than the floor price ($0.50 for the conversion of a share of Series B preferred stock effected on or before March 28, 2002). The conversion price may be adjusted in favor of holders of shares of Series B preferred stock upon certain triggering events. The conversion rate is determined by dividing the original price of the Series B preferred stock by the conversion price in effect at the time of conversion; but before any adjustment is required upon the occurrence of any such triggering events, the conversion price will be equal to the original price of the Series B preferred stock.

On March 9, 2001, Atlantic and the Investors entered into stock repurchase agreement no. 2. Pursuant to stock repurchase agreement no. 2, we repurchased from the Investors, for an aggregate purchase price of $617,067, all 165,518 shares of our Series B preferred stock held by the Investors. The repurchase price represented 125% of the purchase price originally paid by the investors for the repurchased shares, as well as an amount equal to the annual dividend on the Series B preferred stock at a rate per share of 8% of the original purchase price. The repurchased shares constitute all remaining outstanding shares of Series B preferred stock; we have cancelled those shares.

Issuance to Joseph Stephens & Company, Inc.

On January 4, 2000, we entered into a Financial Advisory and Consulting Agreement with Joseph Stevens & Company, Inc. ("Joseph Stevens"). In this agreement, we engaged Joseph Stevens to provide us with investment banking services from January 4, 2000 until January 4, 2001. As partial compensation for the services to be rendered by Joseph Stevens, we issued them three warrants to purchase an aggregate of 450,000 shares of our common stock.

The issuance of the warrants did not involve any public offering and therefore was exempt from the registration requirements of Section 5 of the Securities Act of 1933 (the "Act") pursuant to Section 4(2) of the Act.

The exercise price of each warrant is as follows:

Warrant Number	No. of Shares	Exercise Price
No.1	150,000	$2.50
No.2	150,000	$3.50
No.3	150,000	$4.50

Each warrant may only be exercised when the market price of a share of common stock is at least $1.00 greater than the exercise price of that warrant. In connection with issuance of the warrants, Atlantic and Joseph Stevens entered into a letter agreement granting Joseph Stevens registration rights in respect of the shares of common stock issuable upon exercise of the warrants.

Issuance to TeraComm Research, Inc.

On May 12, 2000, we acquired shares of preferred stock representing a 35% ownership interest in TeraComm Research, Inc. ("TeraComm"), a privately-held company that is developing next-generation high-speed fiberoptic communications technologies. The purchase price for this ownership interest was $5,000,000 in cash, 200,000 shares of our common stock, and a warrant to purchase a further 200,000 shares of our common stock. The warrants have a term of three years and are exercisable at $8.975 per share of common stock, but only if the market price of our common stock is $30 or more. We are accounting for the investment in TeraComm in accordance with the equity method of accounting for investments since we have the ability to exert significant influence over TeraComm including through our Board representation.

The issuance of the common stock and warrants did not involve any public offering and therefore was exempt from the registration requirements of Section 5 of the Securities Act of 1933 (the "Act") pursuant to Section 4(2) of the Act.

On July 18, 2000, Atlantic and TeraComm amended the purchase agreement. In the amendment, the parties agreed that the $4,000,000 balance of the $5,000,000 cash component of the purchase price would not be due until TeraComm achieved a specified milestone. Within ten days after TeraComm achieved that milestone, we were required to pay TeraComm $1,000,000 and thereafter make to TeraComm three payments of $1,000,000 at three-month intervals. If we failed to make any of these payments, TeraComm's only recourse would be reducing proportionately our ownership interest. Our failure to make the first $1,000,000 payment by midnight at the end of December 30, 2000 (whether or not TeraComm has reached the milestone) would at the option of TeraComm be deemed to constitute failure by us to timely make that payment.

When we failed to make the first $1,000,000 payment by midnight at the end of December 30, 2000, we were deemed to have surrendered to TeraComm a proportion of our TeraComm shares equal to the proportion of the dollar value of the purchase price for our TeraComm shares ($6,795,000) that was represented by the unpaid $4,000,000 of the cash portion of the purchase price. This had the effect of reducing to 14.4% our actual ownership interest in TeraComm. However, Atlantic continues to hold one seat on the Board of Directors, and therefore continues to have the ability to exert significant influence.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We were incorporated in Delaware on May 18, 1993 and commenced operations on July 13, 1993. We are engaged in the development of biomedical and pharmaceutical products and technologies. We have rights to two technologies which we believe may be useful in the treatment of a variety of diseases, including cancer, infectious disease, and pain and inflammation, and we are entitled to royalties and other revenues in connection with a third technology, relating to the treatment of ophthalmic disorders. Our existing products and technologies under development are each held either by us or our subsidiaries. We have been unprofitable since inception and expect to incur substantial additional operating losses over the next several years. The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-KSB.

RESULTS OF OPERATIONS

2000 Versus 1999

From the commencement of operations through December 31, 2000, we have generated $9,118,457 of revenue.

In accordance with a development agreement as amended in September 1999, Bausch & Lomb Surgical reimbursed our subsidiary, Optex, for costs Optex incurred in developing its Catarex technology, plus a profit component. For the year ended December 31, 2000, this agreement provided $5,169,288 of development revenue, and the related cost of development revenue was $4,135,430. For the year ended December 31, 1999, this agreement provided $1,082,510 of development revenue, and the related cost of development revenue was

$866,008. On March 2, 2001, Optex sold substantially all of its assets, including those related to the Catarex technology, to Bausch & Lomb. The development agreement was terminated and we will no longer receive development revenue under that agreement.

Research and development expenditures consist primarily of costs associated with research and development personnel; the cost of operating our research and development laboratories; payments made under our license agreements, sponsored research agreements, research agreements with institutes, and consultants' agreements with its licensors, scientific collaborators, and research institutes; and costs related to patent filings and maintenance. For the year ended December 31, 2000, our research and development expense was $1,130,345 as compared to $1,091,291 for the year ended December 31, 1999. The 1999 expense is presented net of nine months of Bausch & Lomb reimbursements of $1,044,708 received prior to the September 1999 amendment. This increase was due to increased expenditures for the year on certain development projects, including the costs associated with the completion of a successful Phase I study for our CT-3 compound during 2000.

During 2000, we made an investment in TeraComm Research, Inc., accounted for under the equity method of accounting, of $1,000,000 cash as well as common stock and a warrant to purchase common stock, together valued at $1,800,000. Of the $2,800,000 purchase price, we expensed $2,653,382 as acquired in-process research and development, as TeraComm's product development activity is in the very early stages. The TeraComm investment is accounted for in accordance with the equity method of accounting for investments as we continue to have the ability to exert significant influence over TeraComm.

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

In 2000, we had $1,020,128 of expense associated with warrants issued to Joseph Stevens & Company as partial compensation for investment banking services provided by Joseph Stevens & Company during 2000.

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

1999 Versus 1998

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

From inception to December 31, 2000, we incurred an accumulated deficit of $24,826,334, and we expect to continue to incur additional losses for the foreseeable future.

At December 31, 2000, we had $2,663,583 in cash and cash equivalents and working capital of $798,726. We are also obligated, and contingently obligated, under consulting and lease agreements to pay certain amounts in the future. See Note 13 of Notes to Consolidated Financial Statements.

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

In May 1998, Optex entered into a development and licensing agreement pursuant to which it granted to Bausch & Lomb Surgical Incorporated, an affiliate of Bausch & Lomb, a worldwide license to its rights to the Catarex device. In September 1999, Optex and Bausch & Lomb Surgical amended this agreement to expand Optex's role in development of the Catarex surgical device. During 2000, we recorded development revenue from the amended agreement in the

amount of $5,169,288.

Pursuant to an asset purchase agreement dated January 31, 2001, between Bausch & Lomb, a Bausch & Lomb affiliate, Atlantic, and Optex, on March 2, 2001, Optex sold to Bausch & Lomb substantially all its assets, including all those related to the Catarex technology. The purchase price was $3 million paid at closing ($600,000 of which was distributed to the minority shareholders). In addition, Optex is entitled to receive additional consideration, namely $1 million once Bausch & Lomb receives regulatory approval to market the Catarex device in Japan, royalties on net sales on the terms stated in the original development agreement dated May 14, 1998, between Bausch & Lomb and Optex, as amended, and minimum royalties of $90,000, $350,000, and $750,000 for the first, second, and third years, respectively, starting on first commercial use of the Catarex device or January 1, 2004, whichever is earlier. Optex also has the option to repurchase the acquired assets from Bausch & Lomb if it ceases developing the Catarex technology. Upon the acquisition, Bausch & Lomb's development agreement with Optex was terminated.

We anticipate that our current resources, together with $2.4 million in net proceeds from the Bausch & Lomb asset purchase agreement, less $617,067 used to repurchase the remaining shares of our Series B preferred stock (see below), will be sufficient to finance our currently anticipated needs for operating and capital expenditures for at least the next twelve months. In addition, we will attempt to generate additional capital through a combination of collaborative agreements, strategic alliances, and equity and debt financing. However, we can give no assurance that we will be able to obtain additional capital through these sources or upon terms acceptable to us.

Until required for operations, our policy is to keep our cash reserves in bank deposits, certificates of deposit, commercial paper, corporate notes, U.S. government instruments and other investment-grade quality instruments.

On September 28, 2000, pursuant to a convertible preferred stock and warrants purchase agreement (the "purchase agreement"), we issued to BH Capital Investments, L.P. and Excalibur Limited Partnership (together, the "Investors") for a purchase price of $2,000,000, 689,656 shares of our Series B convertible preferred stock (the "Series B preferred stock") and warrants to purchase 134,000 shares of our common stock. Half of the shares of

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

On December 4, 2000, Atlantic and the Investors entered into a stock repurchase agreement (the "stock repurchase agreement") pursuant to which we repurchased from the Investors for $500,000 137,930 shares of Series B preferred stock, and agreed to the release from escrow to the Investors of the $1,000,000 purchase price of the 344,828 shares of Series B preferred stock held in escrow. We also allowed the Investors to keep all of the warrants issued under the purchase agreement and issued to the Investors warrants to purchase a further 20,000 shares of our common stock at the same exercise price. On January 19, 2001, 41,380 shares of Series B preferred stock were converted by the Investors into 236,422 shares of our common stock.

The conversion price per share of the Series B preferred stock was amended by the second amendment to the purchase agreement. The conversion price per share of Series B preferred stock on any given day is the lower of (1) $1.00 or (2) 90% of the average of the two lowest closing bid prices on the principal

market of the common stock out of the fifteen trading days immediately prior to conversion, but the conversion price will be reduced by an additional 5% if the common stock is not listed on either the Nasdaq SmallCap Market or Nasdaq National Market as of that date, and in no event will the conversion price be lower than the floor price ($0.50 for the conversion of a share of Series B preferred stock effected on or before March 28, 2002). The conversion price may be adjusted in favor of holders of shares of Series B preferred stockupon certain triggering events. The conversion rate is determined by dividing the original price of the Series B preferred stock by the conversion price in effect at the time of conversion; but before any adjustment is required upon the occurrence of any such triggering events, the conversion price will be equal to the original price of the Series B preferred stock.

On March 9, 2001, Atlantic and the Investors entered into a second stock repurchase agreement ("stock repurchase agreement no. 2"). Pursuant to stock repurchase agreement no. 2, we repurchased from the Investors, for an aggregate purchase price of $617,067, all 165,518 shares of our Series B preferred stock held by the Investors. The repurchase price represented 125% of the purchase price originally paid by the investors for the repurchased shares, as well as an amount equal to the annual dividend on the Series B preferred stock at a rate per share of 8% of the original purchase price. The repurchased shares constitute all remaining outstanding shares of Series B preferred stock; we have cancelled those shares.

On May 12, 2000, we acquired shares of preferred stock representing a 35% ownership interest in TeraComm Research, Inc. ("TeraComm"), a privately held company that is developing next-generation high-speed fiber optic communications technologies. The purchase price for this ownership interest was $5,000,000 in cash, 200,000 shares of our common stock, and a warrant to purchase a further 200,000 shares of our common stock. Of the $5,000,000 cash portion of the purchase price, we paid $1,000,000. We are accounting for the investment in TeraComm in accordance with the equity method of accounting for investments since we have the ability to exert significant influence over TeraComm including through our Board representation.

On July 18, 2000, Atlantic and TeraComm amended the purchase agreement. In the amendment, the parties agreed that the $4,000,000 balance of the $5,000,000 cash component of the purchase price would not be due until TeraComm achieved a specified milestone. Within ten days after TeraComm achieved that milestone, we were required to pay TeraComm $1,000,000 and thereafter make to TeraComm three payments of $1,000,000 at three-month intervals. If we failed to make any of these payments, TeraComm's only recourse would be reducing proportionately our ownership interest. Our failure to make the first $1,000,000 payment by midnight at the end of December 30, 2000 (whether or not TeraComm has reached the milestone) would at the option of TeraComm be deemed to constitute failure by us to timely make that payment.

When we failed to make this first $1,000,000 payment, we were deemed to have surrendered to TeraComm a proportion of our TeraComm shares equal to the proportion of the dollar value of the purchase price for our TeraComm shares ($6,795,000) that was represented by the unpaid $4,000,000 of the cash portion of the purchase price. This had the effect of reducing to 14.4% our ownership interest in TeraComm. However, Atlantic continues to hold one seat on the Board of Directors, and therefore continues to have the ability to exert significant influence.

On March 16, 2001, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC pursuant to which Fusion Capital agreed to purchase up to $6.0 million of our common stock over a 30-month period, subject to a 6-month extension or earlier termination at our discretion. The selling price of the shares will be equal to the lesser of (1) $20.00 or (2) a price based upon the future market price of the common stock, without any fixed discount to the

market price. For further details, see our registration statement on Form S-3 filed with the SEC

on March 25, 2001. However, Nasdaq delisting would constitute an event of default under the purchase agreement with Fusion Capital, and Fusion Capital would no longer be obligated to purchase our common stock.

We risk being delisted from the Nasdaq SmallCap Market. March 20, 2001, marked the thirtieth consecutive business day that the minimum bid price of our common stock was less than $1.00. This constitutes a failure on our part to meet Nasdaq's continued inclusion requirement for minimum bid price. On March 22, 2001, Nasdaq notified us of this failure, and we have a period of 90 calendar days from that notice to comply with the continued inclusion standard for minimum bid price. We can do so by meeting the standard for a minimum of 10 consecutive business days during the 90 day compliance period.

In addition, the consolidated financial statements included with this Annual Report show that on December 31, 2000, our net tangible assets were less than $2 million. Consequently, we expect to receive a deficiency notice from Nasdaq notifying us that we have ten days to submit a plan to achieve and sustain long-term compliance with all applicable listing criteria. If Nasdaq is not satisfied with the plan that we submit or if we do not submit a plan, we will then receive a staff determination from Nasdaq. Upon receipt of the staff determination, we will have seven days to appeal the staff determination and request a hearing before Nasdaq's Listing Qualifications Panel (the "panel"), and such a request will generally stay the delisting pending a determination by the panel (called a "panel decision"). Failure to request a hearing within seven calendar days will result in automatic delisting. In addition, if our securities were delisted it could materially and adversely affect our ability to raise additional funding.

RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of SFAS No. 133" and SFAS No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 138 amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities. SFAS No. 133 requires a company to recognize all derivative instruments as assets and liabilities in its balance sheet and measure them at fair value. The adoption of these statements did not have a material impact on our consolidated financial position, results of operations or cash flows, as we are currently not party to any derivative instruments.

ITEM 7. CONSOLIDATED FINANCIAL STATEMENTS

For a list of the consolidated financial statements filed as part of this report, see the Index to Consolidated Financial Statements at page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

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

Steve H. Kanzer, C.P.A., Esq., 37, has been a director of Atlantic since its inception in 1993. Mr. Kanzer currently is a member of the Audit Committee and the Compensation Committee. Since December 1997, Mr. Kanzer has been Chief Executive Officer of a biotechnology holding company, Corporate Technology Development, Inc., based in Miami. From 1992 until December 1998, Mr. Kanzer was a founder and Senior Managing Director of Paramount, and Senior Managing Director--Head of Venture Capital of Paramount Capital Investments, LLC ("Paramount Investments"), a biotechnology and biopharmaceutical venture capital and merchant banking firm that is associated with Paramount. From 1993 until June 1998, Mr. Kanzer was a founder and a member of the board of directors of Boston Life Sciences, Inc., a publicly-traded pharmaceutical research and development company. Mr. Kanzer is a founder and Chairman of the Board of Discovery Laboratories, Inc., and a member of the board of directors of Endorex Corp., two publicly-traded pharmaceutical research and development companies. Prior to joining Paramount, Mr. Kanzer was an attorney with Skadden, Arps, Slate, Meagher & Flom LLP in New York, New York from September 1988 to October 1991. He received his J.D. from New York University School of Law in 1988 and a B.B.A. in Accounting from Baruch College in 1985. In his capacity as employee and director of other companies in the venture capital field, Mr. Kanzer is not required to present to Atlantic opportunities that arise outside the scope of his duties as a director of Atlantic.

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

1994.

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

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

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

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Atlantic's officers, directors and persons who are the beneficial owners of more than 10% of the common stock to file initial reports of ownership and reports of changes in ownership of the common stock with the SEC. Officers, directors and beneficial owners of more than 10% of the common stock are required by SEC regulations to furnish Atlantic with copies of all Section 16(a) forms they file.

Each of Atlantic's directors and executive officers was late in filing the forms required by Section 16(a) of the Exchange Act during fiscal year 2000.

ITEM 10. EXECUTIVE COMPENSATION

COMPENSATION OF EXECUTIVE OFFICERS

Pursuant to our 1995 stock option plan, on April 12, 2000, Dr. Rudick was granted options for 100,000 shares of common stock at an exercise price of $4.1875. Additionally, on April 12, 2000, Dr. Rudick was granted options for 25,000 shares of common stock at an exercise price of $4.1875 in connection with his promotion to Chief Executive Officer. During the 2000 fiscal year, options for 50,000 shares of common stock that had been granted to Dr. Rudick on August 9, 1999, were rescinded in order to correct for the grant to Dr. Rudick during the 1999 fiscal year of options for 37,000 shares of common stock above the amount permitted by our stock option plan for that fiscal year. Pursuant to the

1995 stock option plan, on April 12, 2000, Frederic Zotos was granted options for 100,000 shares of common stock at an exercise price of $4.1875. Additionally, on April 12, 2000, Frederic Zotos was granted options for 150,000 shares of common stock at an exercise price of $4.1875 in connection with his promotion to President. On April 12, 2000, Nicholas Rossettos was granted options for 50,000 shares of common stock at an exercise price of $4.1875 in connection with his promotion to Chief Financial Officer.

The following table sets forth, for the last three fiscal years, the compensation earned for services rendered in all capacities by our chief executive officer and the other highest-paid executive officers serving as such at the end of 2000 whose compensation for that fiscal year was in excess of $100,000. The individuals named in the table will be hereinafter referred to as the "Named Officers." No other executive officer of Atlantic received compensation in excess of $100,000 during fiscal year 2000. No executive officer who would otherwise have been included in this table on the basis of 2000 salary and bonus resigned or terminated employment during that year.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensat
					Awards
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation ($)	Securitie Underlyin Options/S
A. Joseph Rudick, M.D.(1)	2000	123,750	111,174	0	25,000
Chief Executive Officer	1999	0	23,502	0	87,000(3)
	1998	0		0	10,000
Frederic P. Zotos, Esq. (5)	2000	131,250	50,000	10,000(6)	250,000
President	1999	0	0	0	37,000
	1998	0	0	0	0
Nicholas J. Rossettos, C.P.A.(9)	2000	91,146	25,000	10,000(10)	50,000
Chief Financial Officer,	1999	0	0	0	0
Treasurer and Secretary	1998	0	0	0	0

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(1) Dr. Rudick became Chief Executive Officer of Atlantic on April 10, 2000.

(2) Represents $86,174 paid to Dr. Rudick in recognition of his role in negotiating an amendment to Optex's contract with Bausch & Lomb (see Item 12 below for a more detailed explanation), less $1,500 returned to Atlantic by him due to mistaken overpayment of director's fees for the 1999 fiscal year.

(3) Excludes options for 50,000 shares of common stock granted to Dr. Rudick

on August 9, 1999, but rescinded in the 2000 fiscal year to correct the grant to him in the 1999 fiscal year of options for 37,000 shares of common stock above the amount permitted by the stock option plan for that fiscal year.

(4) Represents $50,516 in fees paid to Dr. Rudick for consulting services rendered, $7,500 in director's fees, of which $1,500 was paid in error and therefore returned to Atlantic by him in 2000, and $23,507 paid in recognition of his role in negotiating an amendment to Optex's contract with Bausch & Lomb (see Item 12 below for a more detailed explanation).

(5) Mr. Zotos became President of Atlantic on April 3, 2000.

(6) Represents matching contributions by Atlantic pursuant to Atlantic's SAR-SEP retirement plan.

(7) Represents $8,000 in fees paid for consulting services rendered and $6,750 in director's fees.

(8) Represents fees paid for consulting services rendered.

(9) Mr. Rossettos became Chief Financial Officer of Atlantic on April 10, 2000.

(10) Represents matching contributions by Atlantic pursuant to Atlantic's SAR-SEP retirement plan.

OPTIONS AND STOCK APPRECIATION RIGHTS

The following table contains information concerning the grant of stock options under the 1995 stock option plan and otherwise to the Named Officers during the 2000 fiscal year. Except as described in footnote (1) below, no stock appreciation rights were granted during the 2000 fiscal year.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

Individual Grants			
Name	Number of Securities Underlying Options/ SARs Granted(#)(1)	% of Underlying Options/SARs Granted to Employees in Fiscal Year(2)	Exercise Pri ($/Share)(3)
A. Joseph Rudick M.D.(4)	125,000	25%	$4.1
Frederic P. Zotos, Esq.	250,000	51%	$4.1
Nicholas J. Rossettos, CPA	50,000	10%	$4.1
Other Employees	20,000	4%	$4.1
	50,000	10%	$3.4

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(1) Each option has a maximum term of ten years, subject to earlier termination in the event of the optionee's cessation of service with Atlantic. Dr. Rudick's options became exercisable as follows: (1) the first option for 100,000 shares of common stock, 25% upon granting and 25% each of the first three anniversaries of the date of granting; (2) the second option for 25,000 shares of common stock, 25% upon granting and 25% each of the first three anniversaries of the date of granting. Mr. Zotos' options are exercisable as follows: (1) the first option for 100,000 shares of common stock, 25% upon granting and 25% each of the first three anniversaries of the date of granting; (2) the second option for 150,000 shares of common stock, 25% upon granting and 25% each of the first three anniversaries of the date of granting. Mr. Rossettos' options for 50,000 shares of common stock are exercisable as follows: 25% upon granting and 25% each of the first three anniversaries of the date of granting. Options for the remainder of the employees are exercisable as follows: (1) the option for 20,000 shares of common stock, 25% upon granting and 25% each of the first three anniversaries of the date of granting; (2) the option for 50,000 shares of common stock, 25% upon granting and 25% each of the first three anniversaries of the date of granting. Each option will become immediately exercisable in full upon an acquisition of Atlantic by merger or asset sale, unless the option is assumed by the successor entity. Each option includes a limited stock appreciation right pursuant to which the optionee may surrender the option, to the extent exercisable for vested shares, upon the successful completion of a hostile tender for securities possessing more than 50% of the combined voting power of Atlantic's outstanding voting securities. In return for the surrendered option, the optionee will receive a cash distribution per surrendered option share equal to the excess of (1) the highest price paid per share of common stock in that hostile tender offer over (2) the exercise price payable per share under the cancelled option.

(2) Calculated based on total option grants to employees of 495,000 shares of common stock during the 2000 fiscal year.

(3) The exercise price may be paid in cash or in shares of common stock (valued at fair market value on the exercise date) or through a cashless exercise procedure involving a same-day sale of the purchased shares. Atlantic may also finance the option exercise by loaning the optionee sufficient funds to pay the exercise price for the purchased shares and the federal and state income tax liability incurred by the optionee in connection with such exercise. The optionee may be permitted, subject to the approval of the Plan Administrator, to apply a portion of the shares purchased under the option (or to deliver existing shares of common stock) in satisfaction of such tax liability.

(4) Stock options for 50,000 shares granted to Dr. Rudick on August 9, 1999, would have vested upon the sale of Optex on January 31, 2001. These options were, however, rescinded during the 2000 fiscal year, in order to correct for the grant to Dr. Rudick in the 1999 fiscal year of options for 37,000 shares above the amount permitted by the 1995 stock option plan for that fiscal year.

OPTION EXERCISE AND HOLDINGS

The following table provides information with respect to the Named Officers concerning the exercisability of options during the 2000 fiscal year

and unexercisable options held as of the end of the 2000 fiscal year. No stock appreciation rights were exercised during the 2000 fiscal year, and, except for the limited rights described in footnote (1) to the preceding table, no stock appreciation rights were outstanding at the end of that fiscal year.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR ("FY")
AND FY-END OPTION VALUES

Name	Shares Acquired on Exercise	Value Realized (1)	No. of Securities Underlying Unexercised Options/SARs at FY-End (#)		Va Op pr ex
			Exercisable	Unexercisable	
A. Joseph Rudick, M.D.	0	--	94,361	127,639	
Frederic P. Zotos	0	--	92,833	194,167	
Nicholas J. Rossettos	0	--	12,500	37,500	

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(1) Equal to the fair market value of the purchased shares at the time of the option exercise over the exercise price paid for those shares.

(2) Based on the fair market value of Atlantic's common stock on December 31, 2000 of $0.66 per share, the closing sales price per share on that date on the Nasdaq SmallCap Market.

LONG TERM INCENTIVE PLAN AWARDS

No long term incentive plan awards were made to a Named Officer during the last fiscal year.

COMPENSATION OF DIRECTORS

Non-employee directors are eligible to participate in an automatic stock option grant program pursuant to the 1995 stock option plan. Non-employee directors are granted an option for 10,000 shares of common stock upon their initial election or appointment to the board and an option for 2,000 shares of common stock on the date of each annual meeting of our stockholders for those non-employee directors continuing to serve after that meeting. On September 29, 2000, pursuant to the automatic stock option grant program, Atlantic granted each of Steve Kanzer and Peter Kliem options for 2,000 shares of common stock at an exercise price of $3.1875 per share, the fair market value of our common stock on the date of grant. Additionally, on September 29, 2000, Peter Kliem was granted options for 25,000 shares of common stock at an exercise price of $3.1875. On September 29, 2000, Steve Kanzer was granted options for 25,000 shares of common stock at an exercise price of $3.1875. Peter Kliem was also granted options for 23,000 shares of common stock on April 6, 2000, at an exercise price of $5.125 and options for 10,000 shares of common stock on March 21, 2000, at an exercise price of $6.125.

The board agreed that effective October 21, 1999, each non-employee member

of the board is to receive $6,000 per year for his services as a director, payable semi-annually in arrears, plus $1,500 for each board meeting attended in person, $750 for each board meeting attended via telephone conference call and $500 for each meeting of a committee of the board attended.

Board members are reimbursed for reasonable expenses incurred in connection with attending meetings of the board and of committees of the board.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE OF CONTROL AGREEMENTS

Effective November 15, 1995, Shimshon Mizrachi became Controller of Atlantic and of each of Atlantic's subsidiaries pursuant to a letter agreement dated November 6, 1995. Mr. Mizrachi and his dependents were also eligible to receive paid medical and long-term disability insurance and such other health benefits as Atlantic made available to its other senior officers and directors. Effective January 7, 2000, Atlantic terminated the employment of Mr. Mizrachi and was obligated, pursuant to the letter agreement, to pay his salary for six months thereafter, subject to Mr. Mizrachi's duty to mitigate damages by seeking alternative employment.

Effective April 10, 2000, Dr. Rudick became Chief Executive Officer of Atlantic pursuant to an employment agreement dated as of the effective date. This agreement has a three-year term ending on April 10, 2003. Dr. Rudick reports to our board of directors. Dr. Rudick and his dependents are eligible to receive paid medical and long term disability insurance and such other health benefits as Atlantic makes available to other senior officers and directors.

Effective April 3, 2000, Mr. Zotos became President of Atlantic pursuant to an employment agreement dated as of the effective date. This agreement has a three-year term ending on April 2, 2003. As President, Mr. Zotos reports to the Chief Executive Officer. Mr. Zotos and his dependents are eligible to receive paid medical and long term disability insurance and such other health benefits as Atlantic makes available to other senior officers and directors.

Effective April 10, 2000, Mr. Rossettos became Chief Financial Officer of Atlantic pursuant to an employment agreement dated as of the effective date. This agreement has a three-year term ending on April 10, 2003. Mr. Rossettos reports to the President or Chief Executive Officer. Mr. Rossettos and his dependents are eligible to receive paid medical and long term disability insurance and such other health benefits as Atlantic makes available to other senior officers and directors.

The Compensation Committee has the discretion under the 1995 stock option plan to accelerate options granted to any officers in connection with a change in control of Atlantic or upon the subsequent termination of the officer's employment following the change of control.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us with respect to the beneficial ownership of common stock as of March 30, 2001, by (1) all persons who are beneficial owners of 5% or more of our common stock, (2) each director and nominee, (3) the Named Officers in the Summary Compensation Table above, and (4) all directors and executive officers as a group. We do not know of any person who beneficially owns more than 5% of the Series A preferred stock and none of our directors or the Named Officers owns any shares of Series A preferred stock. Consequently, the following table does not contain

information with respect to the Series A preferred stock.

The number of shares beneficially owned is determined under rules promulgated by the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under those rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days of March 30, 2001, through the exercise or conversion of any stock option, convertible security, warrant or other right. Including those shares in the tables does not, however, constitute an admission that the named stockholder is a direct or indirect beneficial owner of those shares. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares that power with that person's spouse) with respect to all shares of capital stock listed as owned by that person or entity. The common stock represented here includes the common stock that the beneficial holders would directly possess if they converted all shares of Series A Preferred Stock held by them.

NAME AND ADDRESS	NUMBER OF SHARES	% OF TOTAL SHARES OUTSTANDING(1)
CERTAIN BENEFICIAL HOLDERS:		
Lindsay A. Rosenwald, M.D.(2) 787 Seventh Avenue New York, NY 10019	499,298	7.7%
VentureTek, L.P.(3) 40 Exchange Place 20th Floor New York, NY 10005	438,492	6.8%
MANAGEMENT:		
A. Joseph Rudick, M.D.(4)	130,333	2.0%
Frederic P. Zotos, Esq.(5)	158,666	2.5%
Steve H. Kanzer, C.P.A., Esq.(6)	60,000	1%
Peter O. Kliem(7)	38,500	*
Nicholas J. Rossettos, C.P.A.(8)	25,000	*
All current executive officers and directors as a group (5 persons)	412,49	