PALIGENT INC
Form 10-K405
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2001

Commission File Number: 0-21134

Paligent Inc.

(Exact name of registrant as specified in its charter)

Delaware	**04-2893483**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
369 Lexington Avenue, New York, New York	**10017**
(Address of principal executive offices)	(zip code)

Securities registered pursuant to Section 12(b) of the Act: None

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

(Title of Class)

Common Stock $0.01 par value per share

Registrant s telephone number, including area code: **(212) 453-3111**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ý NO o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 18, 2002 was $789,000.

The number of shares of the registrant s Common Stock outstanding as of March 18, 2002 was 32,490,948.

Documents incorporated by reference:

None.

PART I

Note Regarding Forward-Looking Statements

Statements in this Form 10-K that are not statements or descriptions of historical facts are forward-looking statements under Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 and are subject to numerous risks and uncertainties. These forward-looking statements can generally be identified by the use of such terms as anticipate, believe, continue, expect, may, should, or similar variations or the negative thereof. These forward looking statements involve risks and uncertainties, many of which are out of the Company s control and which may affect its future business plans. Factors that may affect the Company s future business plans include: (i) its ability to identify, complete and integrate an acquisition of an operating business; (ii) the viability of the Company s business strategy in connection with an acquisition and its ability to implement such strategy; (iii) its ability to secure financing for its operations; and (iv) its ability to generate revenues sufficient to meet its operating costs. Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those discussed herein. The descriptions of the risks, uncertainties and assumptions to which the Company s business, operations and financial conditions are subject are as of the date of this report. The Company assumes no obligation to update any such forward-looking statements.

Item 1. Business.

Corporate Summary

Paligent Inc. together with its subsidiaries (collectively, Paligent or the Company) is presently seeking business opportunities to maximize value for its shareholders. In 2001, Paligent significantly reduced its operating costs following the disposition of its Internet business and the out-licensing of its remaining biotechnology assets in 2000. All employees were released, except for the Company s chief executive officer and an executive assistant, and the Company subleased a substantial portion of its office facility and related equipment. Throughout 2001, the Company evaluated various strategic alternatives, including acquisitions of new operating businesses and technologies as well as potential merger opportunities.

From its inception in 1985 through 1999, the Company operated, under the name Procept, Inc., as a biotechnology company engaged in the development and commercialization of novel drugs with a product portfolio focused on infectious diseases and oncology. In January 2000, the Company acquired Heaven s Door Corporation (HDC), a company that provided business-to-business and business-to-consumer products and services for the funeral service industry over the Internet. Effective with the acquisition of HDC, the Company s name was changed from Procept, Inc. to HeavenlyDoor.com, Inc. At the same time, Procept, Inc. became the new name of the Company s subsidiary, Pacific Pharmaceuticals, Inc. (hereinafter referred to as Procept), a company engaged in the development of cancer therapies, which the Company acquired in March 1999.

Subsequent to the merger with HDC, the Company sold its biotechnology equipment and closed its Cambridge, Massachusetts facility in June 2000. Shortly thereafter, the Company out-licensed two biotechnology compounds, PRO 2000 Gel and O6-Benzylguanine (O6-BG), that had been under development by the Company for several years. Under terms of the respective out-licensing agreements, the Company retained certain future rights for PRO 2000 Gel and O6-BG.

Concurrent with the closure of its biotechnology facility, the Company established an office in New York City. At this new location, the Company consolidated its Internet business operations and corporate affairs relating to its biotechnology holdings. The Florida office, which had been the center of Internet operations for HDC, was also closed in mid-2000. Effective with the merger with HDC and for the balance of 2000, the Company pursued an Internet strategy that focused on promoting and facilitating transactions between consumers, funeral industry service providers and financing institutions.

During the fourth quarter of 2000, the Company decided to discontinue the pursuit of its Internet strategy after a sustained period of deterioration in the Internet and technology sectors and related capital markets. Shortly thereafter, the Company entered into an agreement to sell all of its Web-based assets and Internet funeral service operations, including the name HeavenlyDoor.com. In connection with this agreement, the Company's name was again changed, on December 31, 2000, from HeavenlyDoor.com, Inc. to Paligent Inc.

Biotechnology Programs Under Out-License

Overview

PRO 2000 Gel

PRO 2000 Gel is under development as a vaginal, topical microbicide designed to provide protection against human immunodeficiency virus (HIV) infection, as well as other sexually transmitted pathogens (*e.g.,* herpes, chlamydia and gonorrhea infection).

On June 14, 2000, the Company licensed to Interneuron Pharmaceuticals, Inc. (Interneuron), the exclusive, worldwide rights to develop and market PRO 2000 Gel (see Item 13 - Certain Relationships and Related Transactions). Under the licensing agreement, the Company received an up-front payment of $500,000 and retains certain future rights to PRO 2000 Gel, including (i) provisions for the receipt of additional payments based upon the achievement of certain milestones; and (ii) royalties from future commercial sales of PRO 2000 Gel, if any. Interneuron is responsible for all remaining development and commercialization activities for PRO 2000 Gel and has an option, for a limited period of time, to purchase the future royalty rights relating to PRO 2000 Gel.

O6-Benzylguanine

O6-BG is a chemosensitizer that is designed to overcome resistance to a significant class of commonly used chemotherapeutic agents known as O6-alkylating agents. In pre-clinical animal studies, treatment with O6-BG increased the anti-tumor activity of these agents in brain, colon and prostate cancers, as well as in melanoma. A Phase II development program began in 1999 and continues to be conducted in accordance with a Cooperative Research and Development Agreement (CRADA) executed with the National Cancer Institute (NCI), a unit of the National Institutes of Health (NIH), in August 1998.

On October 13, 2000, Procept and AOI Pharmaceuticals Inc. (AOI) entered into a sublicense agreement (the Sublicense Agreement) pursuant to which AOI sublicensed Procept s exclusive, worldwide patent rights and know-how relating to O6-BG in exchange for future royalties on net sales of O6-BG (see Item 13 - Certain Relationships and Related Transactions). The Sublicense Agreement also provides for cash payments to Procept based upon the achievement of certain developmental milestones. In addition, AOI assumed all financial obligations of Procept relating to its licensing of worldwide patent rights and CRADA costs that are incurred subsequent to the effective date of the Sublicense Agreement. On November 22, 2000, Procept was notified by The Penn State Research Foundation (PSRF) that it was in default of its material obligations under the license agreement dated February 6, 1998 between Procept and PSRF, and others (the License Agreement), and that such default invalidated the

Sublicense Agreement. While the Company believed that PSRF s claims were without merit, the Company pursued discussions with PSRF, NIH and NCI in an effort to resolve the claims made by PSRF. On February 28, 2002, Procept and the United States Public Health Service (PHS), represented by NIH, a constituent agency of PHS, executed an exclusive Patent License Agreement (the New License Agreement), which superceded the License Agreement. The New License Agreement affirms Procept s worldwide patent rights to O6-BG and related compounds, and acknowledges the Sublicense Agreement as of the date executed by Procept and AOI. At the time of executing the New License Agreement, Procept paid to PHS a one-time license issue royalty fee of $86,000 for accrued outstanding patent prosecution costs.

In connection with the execution of the New License Agreement, Procept, together with the NCI and AOI, also executed an amendment to the CRADA (the Amended CRADA), pursuant to which AOI replaced Procept as Collaborator (i.e., the research and development partner). Under terms of the Amended CRADA, AOI assumed direct responsibility for all remaining research and payment obligations, effective as of February 28, 2002. As part of the Amended CRADA, Procept made a final payment of $200,000 to NCI for accrued production and clinical distribution costs relating to O6-BG.

Prior to executing the Amended CRADA, AOI had been obligated to reimburse Procept for costs that Procept paid under the CRADA, pursuant to, and subsequent to the effective date of, the Sublicense Agreement. While the Company was endeavoring to resolve this matter, Procept and AOI had agreed that AOI would defer its reimbursement to Procept for costs that Procept had paid relating to its licensing of patent rights and CRADA obligations. Commensurate with the resolution of this matter on February 28, 2002, AOI paid to the Company the total balance of deferred reimbursable costs.

Description of Out-Licensed Programs

PRO 2000 Gel: A Microbicide to Prevent HIV and Sexually Transmitted Disease (STD) Infection

PRO 2000 Gel is a topical microbicide designed to prevent the sexual transmission of HIV and other STD pathogens. Development activities are being conducted by Interneuron.

HIV infection usually leads to acquired immunodeficiency syndrome (AIDS), a severe, life-threatening impairment of the immune system. The World Health Organization estimates that there were 4.7 million new adult HIV infections worldwide in 2000, the majority through heterosexual intercourse. Heterosexual contact has also become the most common route of HIV infection in U.S. women. Other STDs, such as genital herpes, chlamydia and gonorrhea can lead to serious complications, especially in women, and can increase the risk of HIV infection. Based on estimates by the Kaiser Family Foundation and the World Health Organization, there are 15 million new STD cases each year in the U.S. and more than 340 million worldwide. Topical microbicides represent a new class of protective substances that are designed to be applied vaginally before sexual contact. Topical microbicides have the potential to offer an appealing, female-controlled alternative to condoms, the only products currently known to prevent HIV transmissions.

The Company believes that PRO 2000 Gel s use as a topical microbicide is suitable based upon its ability to block infection by HIV and other STD pathogens by preventing their attachment and entry into cells. Laboratory studies have shown that the drug is active against HIV, herpes simplex virus, chlamydia and the bacteria that cause gonorrhea. Moreover, in government-sponsored tests, vaginally applied PRO 2000 Gel was shown to be efficacious in a mouse model for genital herpes infection and a monkey model for vaginal HIV infection. The product is also highly stable, odorless and virtually colorless. PRO 2000

Gel differs significantly from nonoxynol-9-containing spermicides, which has failed to provide protection against HIV infection in previous human clinical trials.

A number of pre-clinical and early clinical studies of PRO 2000 Gel will have been completed prior to planned Phase II and Phase III trials. Pre-clinical development with PRO 2000 Gel included an NIH-funded study with 28 female macaque monkeys, divided equally into one control group and three treatment groups that received gels with 0.5% PRO 2000 Gel, 2% PRO 2000 Gel and 4% PRO 2000 Gel concentrations. All of the control animals were infected within two weeks after receiving the simian human immunodeficiency virus, and went on to develop AIDS symptoms. Of the treated animals, none in the 0.5% group, and only one each in the 2% and 4% groups became infected and developed disease. The Phase II and III trials include a European Commission-funded Phase II safety trial in at-risk African women scheduled to begin in 2002. In addition, a NIH-sponsored PhaseII/III pivotal trial to determine the safety and efficacy of PRO 2000 Gel in blocking male to female HIV transmission is planned to begin in 2002 in Africa and India. The study will involve approximately 10,000 HIV-uninfected women at risk for acquiring HIV by virtue of living in countries where the risk of such infection is high.

In October 2000, dosing and follow-up for a Phase I/II clinical trial of PRO 2000 Gel was completed by the NIH at sites in the U.S. and South Africa. This study was designed to assess safety and acceptability in healthy, sexually active women and HIV-infected sexually abstinent women. No serious adverse events were reported, and the investigators concluded that PRO 2000 Gel was safe and well-tolerated in both groups of women. Previous Phase I studies conducted in Europe (with support from the Medical Research Council of the United Kingdom) showed a promising safety and acceptability profile for the drug in healthy, sexually abstinent women. Phase I studies to evaluate the safety of male exposure to PRO 2000 Gel are ongoing.

In September 2001, Interneuron was awarded a grant by the Contraceptive Research and Development (CONRAD) Program under its Global Microbicide Project to support two toxicity studies currently being performed by Interneuron with PRO 2000 Gel. Interneuron expects these studies to be completed during 2002.

In February 2002, Interneuron announced that an international collaboration of research groups in the United Kingdom (UK) and Africa had been awarded a grant of 16 million pounds sterling (approximately $22.7 million) from the UK s Department for International Development (DFID) to test the safety and efficacy of vaginal microbicides, including PRO 2000 Gel. The Clinical Trials Unit of the Medical Research Council and Imperial College in London will coordinate the program, which will involve researchers in South Africa, Uganda, Tanzania, Cameroon and Zambia. The DFID grant will support a broad, five-year program that will include a multi-national, randomized, double-blind, placebo-controlled Phase III clinical trial of candidate microbicides.

No comparable product to prevent sexually transmitted infections has been approved for use in the U.S., Europe or Japan. Marketed vaginal spermicides containing the detergent nonoxynol-9 have been found to be ineffective at reducing HIV transmission, and may actually increase the risk of infection. Approximately 60 new substances are being evaluated for this indication, but the Company believes only a few have reached the stage of development of PRO 2000 Gel. These include BufferGel by Reprotect, LLC, Savvy by Biosyn, Inc., Emmelle by ML Laboratories, PLC, Carraguard by The Population Council, and cellulose sulfate gel by the CONRAD Program.

Interneuron is responsible for providing adequate amounts of PRO 2000 Gel for use in government-sponsored clinical trials. Interneuron is dependent upon third-party contractors for the manufacture and delivery of these supplies in accordance with current U.S. Good Manufacturing Practices regulations.

Interneuron intends to seek a partner for commercial manufacture, marketing and distribution of the product.

O6-Benzylguanine: A DNA Repair Protein Inhibitor

Procept holds an exclusive, worldwide license from the United States Public Health Service (PHS) for O6-BG and a series of related compounds that the Company believes will enhance the effectiveness of a class of currently used chemotherapeutic agents known as O6-alkylating agents. Development activities are being conducted by AOI.

O6-BG and related compounds are small molecules for intravenous administration in the treatment of cancer. The Company believes O6-BG to be capable of destroying the resistance of cancer cells to a class of chemotherapeutic agents, O6-alkylating agents. The Company believes that the effectiveness of alkylating chemotherapeutic agents against various tumors is limited due to the ability of tumor cells to repair the DNA damage caused by the O6-alkylating agents, because the DNA repair protein, O6-alkylguanine-DNA alkyltransferase (AGT), protects tumor cells by repairing the tumor cell DNA. The Company believes that O6-BG inactivates the AGT protein in a variety of cancers thereby overcoming resistance to the O6-alkylating agents.

The treatments for most cancers include surgery, radiation therapy and/or chemotherapy. O6-alkylators are chemotherapeutic agents that are primarily used to treat brain cancer, melanoma, lymphoma and certain gastrointestinal cancers. In general, although there are a small percentage of patients who have achieved long-term remission; the O6-alkylators are generally not considered curative. The critical factor contributing to the poor prognosis is the resistance of cancers to the chemotherapeutic agents.

Tumor cells display a variety of mechanisms of resistance to many drugs. Alkylating agents act by causing damage to the DNA by binding to the O6-position of guanine on the DNA strand. AGT is believed to play a significant role in cancer resistance to the O6-alkylators by removing this damage. In a recent study published in the November 9, 2000 issue of The New England Journal of Medicine, it was shown that glioma patients with naturally inactive AGT had a response rate of approximately 60% to carmustine (BCNU) therapy versus a response rate of approximately 4% for those patients that had active AGT. It was also shown that approximately 60% of these patients had active AGT and therefore made virtually all of these patients resistant to BCNU therapy. Additionally, a published study in which 226 patients with brain cancer (high-grade astrocytoma) receiving BCNU therapy showed that the patients with low levels of AGT responded better to treatment and had increased survival relative to patients with high levels of AGT. Conversely, the patients with high levels of tumor AGT protein had poor disease prognosis. Since it appears that O6-BG temporarily destroys AGT, the Company believes that O6-BG may reduce the resistance that is commonly observed in cancer cells following treatment with O6-alkylating agents.

Results of *in vitro* testing have led to an evaluation of O6-alkylating agents in animal tumor models. Upon administration of O6-BG to mice carrying two different human brain tumors prior to the administration of BCNU, 80% and 100% tumor regression was observed compared to 0% and 10% suppression in animals treated with BCNU alone. Combinations of O6-BG and BCNU were also found to be effective in mice bearing human colon cancers, showing 96% tumor regression compared to 35% tumor regression with BCNU alone. Growth inhibition was also observed in a rat prostate model after treatment with O6-BG and BCNU, but was not observed in animals treated with BCNU alone.

A Phase I clinical trial of O6-BG has been completed at Duke University (Duke). The Company believes that the study has shown that O6-BG, injected intravenously, crosses the blood-brain barrier and effectively blocks the activity of human brain tumor AGT protein. The Company also believes that the

study at Duke has demonstrated O6-BG to be nontoxic when administered alone, and to be effective in inhibiting over 90% of AGT activity in brain cancer specimens surgically removed from patients 18 hours after the intravenous administration of O6-BG. Three other Phase I clinical studies at the University of Chicago, Case Western Reserve University (CWRU) and Duke University Medical Center have examined the use of O6-BG in combination with BCNU in brain, colon and renal cancer. In these studies, O6-BG was administered over a one-hour period by intravenous infusion, followed by an infusion of BCNU one hour after completion of the O6-BG infusion. The NCI of the NIH is sponsoring the trials under the CRADA executed between the NCI and Procept. From these studies, which involved patients who had failed other cancer therapies, an O6-BG/BCNU dose of 120/40 mg/m^2 was chosen as the initial Phase II dose. One metastatic colon carcinoma patient achieved a sustained partial response for 13 months after failing other therapies. A second patient with carcinoma of unknown primary had sustained stable disease for 20 months. The Phase I trials have successfully demonstrated the safety of O6-BG. Through the CRADA, Johns Hopkins University Medical Scool and Duke are conducting three Phase II clinical studies in brain cancer utilizing O6-BG in combination with the Gliadel Wafer, BCNU and temozolomide, respectively. The NCI and many investigators continue to support the clinical development of O6-BG for a variety of cancer indications in a series of additional Phase I and Phase II clinical studies, which are currently ongoing.

In addition to O6-BG, the Company s collaborators have tested a considerable number of additional compounds for AGT protein inactivation. The Company believes that a number of next generation compounds are effective in inhibiting the activity of tumor AGT protein. The Company also believes that it has a proprietary interest in these compounds. The Company believes that it is possible that these compounds will offer complementary properties to that of O6-BG in further abrogation of cancer resistance to O6-alkylating agents.

Patents and Proprietary Technology

The Company s policy is to protect its programs under out-license by, among other things, filing or causing to be filed on its behalf, patent applications for technology relating to the development of its biotechnology compounds.

The Company believes its copyrights, service marks, trademarks, trade dress, trade secrets, proprietary technology and similar intellectual property are critical to the success of the biotechnology under out-license. The Company relies on trademark, copyright and trade secret protection in conjunction with confidentiality and/or license agreements with its employees, consultants, partners and others to protect its proprietary rights. In this regard, the Company requires employees, consultants and collaborators to execute confidentiality and invention assignment agreements upon commencement of a relationship with the Company. These agreements prohibit the disclosure of confidential information to anyone outside the Company and require disclosure and assignment to the Company of ideas, developments, discoveries and inventions made by employees, consultants, advisors and collaborators.

The Company s ability to compete effectively with other companies will depend, in part, on the ability of the Company, or its licensees, to maintain the proprietary nature of its technology. Although the Company has been granted, has filed applications for and has licensed a number of patents in the United States and foreign countries, there can be no assurance as to the degree of protection offered by these patents, as to the likelihood that pending patents will be issued or as to the validity or enforceability of any issued patents.

Competitors in both the United States and foreign countries, many of which have substantially greater resources and have made substantial investments in competing technologies, may have applied for or obtained, or may in the future apply for and obtain, patents that will prevent, limit or interfere with the

Company s, or its licensee s, ability to develop the products currently under out-license. There can be no assurance that other third parties will not assert infringement claims against the Company, or its licensees, or that such claims will not be successful. There can also be no assurance that competitors will not infringe the Company s patents. Further, with respect to licensed patents, the defense and prosecution of patent suits may not be in the Company s, or its licensee s, control.

The Company also relies on unpatented proprietary technology of its licensees, which could be significant to the development of the Company s technology, and there can be no assurance that others may not independently develop the same or similar technology or otherwise obtain access to the Company s unpatented technology. If the Company, or its licensees, are unable to maintain the proprietary nature of the Company s technology, the Company could be adversely affected.

Government Regulations

Regulations imposed by federal, state and local authorities, as well as their counterparts in other countries, are a significant factor in the conduct of the research, development, manufacturing and marketing activities for proposed pharmaceutical products.

Before testing of any compounds with potential therapeutic value in human test subjects may begin, stringent government requirements for pre-clinical data must be satisfied. This data, obtained both from *in vivo* studies and *in vitro* studies, is submitted in an Investigational New Drug Application or its equivalent in countries outside the United States where clinical studies are to be conducted.

All data obtained from a comprehensive development program is submitted in New Drug Application or Product License Application to the FDA and the corresponding agencies in other countries for review and approval.

In addition to the regulations relating specifically to product approval, there are other laws and regulations regarding laboratory and manufacturing working conditions, handling and disposition of potentially hazardous material, and use of laboratory animals. In many markets, effective commercialization also requires inclusion of the product in national, state, provincial or institutional formularies or cost reimbursement systems.

Before obtaining approval for the commercial sale of any of the pharmaceutical products that our licensees are developing, our licensees must demonstrate that the product is safe and efficacious for use in each target indication. The process of obtaining FDA and other regulatory approval is lengthy and expensive. The results of pre-clinical studies and early clinical trials may not predict results that will be obtained in large-scale testing or use. Clinical trials of products that our licensees are developing may not demonstrate the safety and efficacy of such products. Regardless of clinical trial results, the FDA may not approve marketing of the product. Even if pre-market approval is obtained, the FDA is authorized to impose post-marketing requirements. A number of companies in the pharmaceutical industry, including Interneuron, have suffered significant setbacks in advanced clinical trials or have not received FDA approval, even after promising results in earlier trials. In addition, the impact of new or changed laws or regulations cannot be predicted. The costs to obtain regulatory approvals could be considerable and the failure of our licensees to obtain, or their delays in obtaining, regulatory approval could have an adverse effect on the ability of the Company to generate royalty revenue. Further, if clinical trials do not demonstrate the safety and efficacy of products under our licensees development, the Company s ability to generate milestone payments and royalty revenue will also be adversely affected

Competition

The biotechnology and pharmaceutical industries are subject to rapid and significant technological change. Competitors in these industries, in the United States and abroad, are numerous and include, among others, major pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions. Competition may increase further as a result of potential advances in the commercial application of biotechnology and greater availability of capital for investment in these fields. Acquisitions of competing companies and potential competitors by large pharmaceutical companies or others could enhance financial, marketing and other resources available to such competitors. As a result of academic and government institutions becoming increasingly aware of the commercial value of their research findings, such institutions are more likely to enter into exclusive licensing agreements with commercial enterprises, including competitors of the Company, or its licensees, to market commercial products. There can be no assurance that such competitors will not succeed in developing technologies that are more effective than the out-licensed biotechnology programs of the Company, or render such technologies obsolete and non-competitive, or succeed in obtaining FDA or other regulatory approvals for products more rapidly.

Employees

As of March 1, 2002, the Company employed 2 full-time and no part-time employees. The Company also utilizes independent contractors to perform various functions for the Company. The Company s employees are not represented by a labor union. The Company regards its employee relations to be satisfactory.

Item 2. Properties.

The Company s office is located at 369 Lexington Avenue, 10th Floor, New York, New York. The Company leases 5,150 square feet under a five-year lease that commenced in April 2000. Effective July 1, 2001, the Company entered into a sublease for the majority of its office space for the duration of its lease.

Item 3. Legal Proceedings.

None.

Item 4. Submission of Matters to a Vote of Securityholders.

No matters were submitted to a vote of securityholders during the fourth quarter of the fiscal year covered by this report.

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PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters.

From February 17, 1994, the date of the Company s initial public offering, until March 26, 1998, the Company s common stock (Common Stock) was quoted on the Nasdaq National Market under the symbol PRCT. From March 27, 1998 through January 27, 2000, the Company s common stock was quoted on the Nasdaq SmallCap Market under the symbol PRCT. Effective with the merger of HDC on January 28, 2000, and until January 3, 2001, the Company s shares were quoted on the Nasdaq SmallCap Market under the trading symbol HVDC. On January 3, 2001, the Company received a letter from The Nasdaq Stock Market, Inc. (Nasdaq) informing the Company that the Nasdaq Listing Qualifications Panel had determined to delist the Company s securities from the Nasdaq SmallCap Market, effective with the open of business on January 4, 2001 (see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations - *Nasdaq Listing*). The Company s securities began to trade on the OTC Bulletin Board on that date under the symbol HVDC until January 9, 2001. In connection with the name change to Paligent, the Company s trading symbol was changed to PGNT, under which symbol the Company s securities have traded since January 10, 2001.

The following table sets forth the range of high and low closing sale prices for the Common Stock as reported by the OTC Bulletin Board and the Nasdaq National Market for the periods indicated below.

	High	Low
2001		
Fourth Quarter	$ 0.07	$ 0.03
Third Quarter	$ 0.10	$ 0.03
Second Quarter	$ 0.19	$ 0.05
First Quarter	$ 0.19	$ 0.06
2000		
Fourth Quarter	$ 0.50	$ 0.06
Third Quarter	$ 1.22	$ 0.31
Second Quarter	$ 3.63	$ 0.66
First Quarter	$ 7.41	$ 2.56

As of March 18, 2002, there were 1,547 holders of record. On March 18, 2002, the closing price reported on the OTC Bulletin Board for the Common Stock was $0.05.

Dividend Policy

The Company has never paid cash dividends on its common stock and does not anticipate paying such dividends in the foreseeable future. The Company intends to retain any future earnings for use in its business.

Item 6. Selected Financial Data.

The selected financial data set forth below as of December 31, 2001 and 2000 and for each of the three years ended December 31, 2001, 2000 and 1999 are derived from the Company s consolidated financial statements included elsewhere in this Report, which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected financial data set forth below as of December 31, 1999, 1998 and 1997 and for the years ended December 31, 1998 and 1997 are derived from audited consolidated financial statements not included in this Report. This data should be read in conjunction with the Company s financial statements and related notes thereto (contained in Item 14 of this Report) and Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report.

SELECTED FINANCIAL DATA

	YEARS ENDED DECEMBER 31,				
	2001	**2000**	**1999**	**1998**	**1997**
	(in thousands, except share data)				
Statement of operations data:					
Revenues	$ 73	$ 254	$ 280	$ 330	$ 781
Costs and expenses:					
Research and development(1)	286	4,696	1,320	1,990	6,619
Sales and marketing		1,135			
General and administrative(1)(2)	1,460	23,409	3,881	2,715	2,715
Impairment of goodwill(2)		20,031			
Charge for purchased in-process research and development(3)			9,406		
Restructuring charges(4)				225	460
Total costs and expenses	1,746	49,271	14,607	3,825	9,794
Loss from operations	(1,673)	(49,017)	(14,327)	(3,495)	(9,013)
Other income (expense)	(20)	1,032	34	204	(40)
Net loss	(1,693)	(47,985)	(14,293)	(3,291)	(9,053)
Less: Incremental charge associated with the conversion of the minority interest in a subsidiary, net(5)			(502)		
Dividends on preferred stock(6)					(4,217)
Net loss applicable to common shareholders	$ (1,693)	$ (47,985)	$ (14,795)	$ (3,291)	$ (13,270)
Basic and diluted loss per share	$ (0.05)	$ (1.55)	$ (1.36)	$ (1.40)	$ (63.68)
Weighted average number of common shares outstanding	32,490,948	30,916,918	10,907,251	2,347,245	208,371

	AS OF DECEMBER 31,				
	2001	**2000**	**1999**	**1998**	**1997**
	(in thousands)				
Balance sheet data:					

Cash and cash equivalents	$ 1,298	$ 2,972	$ 4,075	$ 2,885	$ 535
Marketable securities				2,004	
Total assets	1,650	3,512	4,947	6,188	2,168
Capital lease obligations, net of current portion and other non-current liabilities	96	72	82	186	355
Total shareholders equity	1,062	2,755	4,211	5,397	260

(1) *Includes compensation charges associated with stock options.* During 1998 and 1999, the Company granted stock options to certain employees, directors and consultants with the contractual rights (the Contractual Rights) contained in a unit offering (the Variable Options), whereby the Company sold an aggregate of 1,960,500 shares of Common Stock in January February and April 1998 together with five-year Class C Warrants to purchase 1,960,500 shares of Common Stock at an exercise price of $5.00 per share (the 1998 Offering). The Contractual Rights required contingent additional issuances of Common Stock to the purchasers (x) based on the market price on April 9, 1999 (the Contractual Reset Rights); (y) in the event of future dilutive sales of securities (the Contractual Anti-Dilution Rights); and (z) as a dividend substitute beginning October 1999 and each six months thereafter (the Contractual Dividend Rights) (see Note 5 - Notes to Consolidated Financial Statements). The Variable Options had an initial exercise price of $5.00 per share. As the number of options and the associated exercise price were subject to adjustment and not fixed at the grant date, these stock options were accounted for under variable stock option accounting. Accordingly, the Variable Options were revalued on a quarterly basis by measuring the difference between the current exercise price and the fair market value of the Common Stock on the respective balance sheet date. There were no charges in 1998 or in the first three quarters of 1999, since the fair market value of the Common Stock was less than the then current exercise price with respect to the Variable Options.

During 1999, the number and the exercise price of the Variable Options were adjusted according to the Contractual Rights of the 1998 Offering. As a result, the Company granted 819,064 additional options and the associated exercise price of the Variable Options was reduced from $5.00 per share to $2.11 per share. As a result, the Company recorded a $2.5 million non-cash compensation charge during 1999, representing the earned portion of the $4.6 million total compensation charge. Of the $2.5 million charge recorded in 1999, $2.3 million was allocated to general and administrative expenses. The balance of $200,000 was allocated to research and development costs. There was no charge in 1998 since the fair market value of the Common Stock was less than the then current exercise price with respect to the Variable Options.

On January 28, 2000, concurrent with the merger with HDC, the Company granted an additional 1,004,224 options and further reduced the exercise price from $2.11 per share to $1.56 per share with respect to the Variable Options. The Board of Directors also accelerated the vesting of the Variable Options in connection with the merger with HDC. As part of the merger with HDC, the Company issued approximately 3.9 million shares of Common Stock to terminate the Contractual Rights that were contained in the 1998 Offering. After the termination of the Contractual Rights, the number of options and the associated exercise price of the Variable Options became fixed and accounted for accordingly. As a consequence, a compensation charge of $14.7 million was recorded in fiscal 2000 resulting from the final revaluation under variable plan accounting and the acceleration of the vesting of the Variable Options. During fiscal 2000, the Company also recorded a compensation charge of $4.5 million relating to the fair value of Common Stock issued to consultants. Of the aggregate $19.2 million of non-cash compensation charges recorded in fiscal 2000, $15.4 million was allocated to general and administrative expenses and $3.8 million was allocated to research and development costs.

(2) *Amortization and impairment of goodwill.* In January 2000, the Company recorded goodwill of $24.5 million, representing the excess cost over the fair value of net liabilities acquired in the HDC merger. During fiscal 2000, the Company amortized $4.5 million of such goodwill, which is included in general and administrative expenses. In connection with the Company s decision in December 2000 to discontinue the pursuit of its Internet strategy and to sell its Internet service operations and Web-based assets, the Company recorded a charge of $20.0 million as an impairment of goodwill, representing the remaining unamortized balance of goodwill relating to the HDC merger.

(3) *Charge for purchased in-process research and development.* On March 17, 1999, the Company completed the acquisition of Procept. The aggregate purchase price of approximately $12.2 million (including assumed liabilities of $5.7 million) was allocated to the acquired tangible and intangible assets based upon their estimated fair values. The $9.4 million charge for in-process research and development represents the value assigned to the Procept programs that were still in the development stage for which there was no alternative future use.

(4) *Restructuring charges.* In July 1997, the Company reduced staffing in its research organization through the elimination of six senior positions, incurring a charge of $460,000 for the year ended December 31, 1997. In January 1998, the Company reduced its staff to thirteen

people, incurring a charge of $225,000 for the year ended December 31, 1998.

(5) *Charge associated with the conversion of the minority interest in a subsidiary, net.* On June 30, 1999, the Company issued 2,773,575 shares of Common Stock and 924,525 Class D Warrants to purchase Common Stock to convert the minority interest in BGDC. The $502,000 charge represents the fair value of the shares plus the fair value of the warrants less the book value of the BGDC minority interest.

(6) *Dividends on the Company s preferred stock.* In 1997, the Company recorded a preferred stock dividend in the amount of $4.2 million, which reflects the intrinsic value of the beneficial conversion feature based upon the difference between the $26.25 per share fair market value of the Common Stock on the date of issuance and the $10.90 per share adjusted conversion price.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

From its inception in 1985 through 1999, the Company operated as a biopharmaceutical company engaged in the development and commercialization of novel drugs with a product portfolio focused on infectious diseases and oncology. Beginning in 2000, the Company pursued an Internet strategy that focused on promoting and facilitating transactions between consumers, funeral industry service providers and financing institutions.

During the fourth quarter of 2000, the Company discontinued the pursuit of its Internet strategy after a sustained period of deterioration in the Internet and technology sectors and related capital markets. Shortly thereafter, the Company entered into an agreement to sell all of its Web-based assets and Internet funeral service operations. The Company is currently evaluating strategic alternatives and is looking for new growth areas to maximize value to existing stockholders.

Results of Operations

From inception through December 31, 2001, the Company has generated no revenues from product sales or services, has not been profitable, and has an accumulated deficit of $153.9 million. During that period, the Company was dependent upon corporate collaborations, equity financing and interest on invested funds to provide the working capital necessary for its operations and research and development activities. Losses have resulted principally from costs incurred in research and development activities related to the Company s efforts to develop drug candidates and from the associated administrative costs required to support these efforts. In addition, in connection with the acquisition of HDC, the Company also incurred losses in connection with the development of the Company s Internet business and related marketing activities. The Company expects to incur additional losses as it considers its strategic alternatives, including potential business investment.

Year ended December 31, 2001 as compared to the year ended December 31, 2000

The Company s total revenue, which is derived from interest income, was $73,000 for during the year ended December 31, 2001 as compared to $254,000 for the year ended December 31, 2000. The reduction in interest income is primarily attributable to a decrease in average cash balances available for investment during the year ended December 31, 2001.

The Company s total operating expenses decreased to $1.7 million for the year ended December 31, 2001 from $49.3 million for the year ended December 31, 2000, a decrease of $47.6 million. During fiscal 2000, the Company recorded non-cash charges of $43.7 million, consisting of (i) $24.5 million of amortization and impairment of goodwill recorded in connection with the acquisition of HDC; and (ii) an aggregate of $19.2 million of non-cash compensation charges, including $14.7 million relating to compensation expense associated with variable stock options and a $4.5 million charge for the fair value of Common Stock issued to consultants. These non-cash charges excluded, total operating expenses decreased to $1.7 million from $5.6 million, a decrease of $3.8 million. This decrease is attributable to the closure of the Company s biotechnology facilities and disposition of its Internet operations, both of which occurred in fiscal 2000.

Research and development costs were $300,000 for the year ended December 31, 2001 as compared to $4.7 million in the year ended December 31, 2000, a decrease of $4.4 million. The costs incurred in fiscal 2001 were one-time costs paid in connection with the Company s execution of the New License Agreement and the Amended CRADA. At the time of executing the New License Agreement, Procept

paid to PHS a one-time license issue royalty fee of $86,000 for outstanding patent prosecution costs. In connection with executing the Amended CRADA, Procept made a final payment of $200,000 to NCI for production and clinical distribution costs relating to O6-BG. For the year ended December 31, 2000, research and development costs include $3.8 million of non-cash compensation charges. Excluding the non-cash charges, research and development costs were $900,000 in fiscal 2000, consisting of $700,000 and $200,000, respectively, of biotechnology and Internet development costs.

Sales and marketing expenditures reflect costs associated with the Company s pursuit of an Internet business strategy and related sales and marketing activities associated with promoting the Internet web site. During fiscal 2000, the Company discontinued the pursuit of its Internet strategy and sold its Web-based assets and Internet operations in December 2000. Accordingly, there were no sales and marketing expenses in fiscal 2001.

General and administrative expenses were $1.5 million in fiscal 2001 as compared to $23.4 million in fiscal 2000, a decrease of $21.9 million. For the year ended December 31, 2000, general and administrative expenses include $15.4 million of non-cash compensation charges and $4.5 million of goodwill amortization. Excluding the non-cash charges, general and administrative expenses were $3.5 million in fiscal 2000, a decrease of $2.0 million in fiscal 2001. This decrease reflects the elimination of costs incurred in fiscal 2000 relating to (i) the maintenance and exiting of the Company s biopharmaceutical operations in Cambridge, Massachusetts; (ii) the relocation and consolidation of the Company s business activities in New York City; (iii) the closing of the Company s Florida operations, where the Company conducted its Internet business operations prior to the establishment of its New York City office; and (iv) reductions in staffing and facilities charges in connection with the Company s discontinuance of its Internet operations in December 2000.

During fiscal 2001, the Company recorded a $20,000 loss to other expense in connection with the sale of equipment. For the year ended December 31, 2000, the Company recorded a net gain of $1.0 million in other income, consisting of (i) $500,000 relating to the agreement with Interneuron for the out-licensing of PRO 2000 Gel; (ii) $200,000 of gain on the sale of investment in Aquila Pharmaceuticals, Inc. (Aquila); (iii) $150,000 on sales of biotechnology research and development equipment and fixed assets in connection with the shutdown of its biopharmaceutical operations; (iv) $100,000 relating to the sale of the Company s Internet operations and Web-based assets; and (v) $50,000 relating to Procept s assignment of its licensing rights to all of Procept s intellectual property rights and assets related to dental technology.

Year ended December 31, 2000 as compared to the year ended December 31, 1999

The Company s total revenue, which is derived from interest income, was $300,000 for each of the years ended December 31, 2000 and 1999.

The Company s total operating expenses increased to $49.3 million during the year ended December 31, 2000 from $14.6 million for the year ended December 31, 1999, an increase of $34.7 million. During fiscal 2000, the Company recorded non-cash charges of $43.7 million, consisting of (i) $24.5 million of amortization and impairment of goodwill recorded in connection with the acquisition of HDC; and (ii) an aggregate of $19.2 million of non-cash compensation charges, including $14.7 million relating to compensation expense associated with variable stock options and a $4.5 million charge for the fair value of Common Stock issued to consultants. During fiscal 1999, the Company recorded non-cash charges of $11.9 million, including $9.4 million relating to the acquisition of Procept and a $2.5 million charge relating to compensation expense associated with variable stock options. These non-cash charges excluded, total operating expenses increased to $5.6 million from $2.7 million in the years ended December 31, 2000 and 1999, respectively, an increase of $2.9 million.

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Research and development costs increased by $3.4 million, to $4.7 million in fiscal 2000 from $1.3 million in fiscal 1999. Research and development costs include $3.8 million and $200,000 of non-cash compensation charges in the years ended December 31, 2000 and 1999, respectively. Excluding the non-cash charges, research and development costs decreased by $200,000, to $900,000 in the year ended December 31, 2000 from $1.1 million in the similar period in 1999. This decrease in research and development costs is comprised of a $400,000 reduction in expenditures relating to biotechnology activities, partly offset by $200,000 of costs associated with developing the Company s Internet web site in 2000.

Sales and marketing expenses were $1.1 million for the year ended December 31, 2000. Sales and marketing expenditures reflect costs associated with the Company s pursuit of an Internet business strategy and related sales and marketing activities associated with promoting the Internet web site.

General and administrative expenses increased by $19.5 million, to $23.4 million in fiscal 2000 from $3.9 million in fiscal 1999. General and administrative expenses include $15.4 million of non-cash compensation charges and $4.5 million of goodwill amortization in the year ended December 31, 2000 and $2.3 million of non-cash compensation charges in the year ended December 31, 1999. Excluding the non-cash charges, general and administrative expenses increased to $3.5 million in fiscal 2000 from $1.6 million during the comparable period in 1999, an increase of $1.9 million. This increase includes costs incurred to (i) exit the Company s biopharmaceutical operations in Cambridge, Massachusetts; (ii) relocate and consolidate the Company s business activities in New York City; and (iii) close the Company s Florida operations, where the Company conducted its Internet business operations prior to the establishment of its New York City office. For the twelve months ended December 31, 2000, general and administrative expenses relating to the biopharmaceutical operations were $1.2 million, as compared to $1.6 million during the similar period in 1999, a decrease of $400,000. This decrease relates primarily to the absence of biotechnology related general and administrative costs in the fourth quarter of 2000. The balance of fiscal 2000 general and administrative expenditures of $2.3 million, pertain to the Company s Internet business activities.

Impairment of goodwill reflects a charge of $20.0 million relating to the balance of unamortized goodwill at the time of the Company s decision to discontinue the pursuit of its Internet strategy and to sell all of its Internet service operations and Web-based assets in December 2000.

In fiscal 1999, the Company incurred a $500,000 non-cash charge associated with the purchase of the minority interest in BGDC.

Liquidity and Capital Resources

Since disposing of its Internet assets and related operations in December 2000, the Company has significantly reduced its operating costs. At its present rate of spending, the Company expects that its existing funds and interest income will be sufficient to fund the Company s current operations over the next twelve months while the Company evaluates strategic alternatives, including potential business investments and related financing. No assurance can be given that the Company will be able to complete a business investment or that such financing will be available to the Company. If the Company is unable to generate significant revenue from acquired operations, obtain additional revenue from its out-licensing arrangements in connection with the existing licenses of the Company s biotechnology assets, or secure additional financing, the Company will experience a cash shortage in 2003. Further, any potential strategic alignment and/or potential acquisition could affect the Company s liquidity and financing requirements. If additional funds are raised by issuing equity securities, further dilution to existing stockholders will result and future investors may be granted rights superior to those of existing stockholders.

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The Company s expectations regarding its rate of spending and the sufficiency of its cash resources over future periods are forward-looking statements. The rate of spending and sufficiency of such resources will be affected by numerous factors including the rate of planned and unplanned expenditures by the Company and the timing of payments received, if any, under the sublicenses of the biotechnology assets.

Year ended December 31, 2001 as compared to the year ended December 31, 2000

Since its inception, the Company has financed its operations from the issuance of $71.4 million of its securities, the receipt of $29.4 million under collaborative research agreements and $3.6 million in interest income.

For the year ended December 31, 2001, the Company incurred a net loss of $1.7 million. During fiscal 2001, the Company used $1.7 million to fund operating activities, as compared to $4.6 million during the year ended December 31, 2000. The net decrease of $2.9 million in operating cash outflows is the result of the Company s out-licensing of its biotechnology assets and the discontinuance of its Internet operations and biotechnology research facilities.

At December 31, 2001, the Company s aggregate cash and cash equivalents were $1.3 million, a net decrease of $1.7 million from the end of the prior year. This decrease comprises $1.7 million of cash used to fund operations, the receipt of $100,000 relating to the sale of assets and the use of $100,000 for payments on capital leases.

Year ended December 31, 2000 as compared to the year ended December 31, 1999

For the year ended December 31, 2000, the Company incurred a net loss of $47.9 million. The net loss for fiscal 2000 reflects non-cash charges of $43.7 million, including $24.5 million of amortization and impairment of goodwill recorded in connection with the acquisition of HDC, a charge of $14.7 million relating to compensation expense associated with variable stock options and a $4.5 million charge for the fair value of Common Stock issued to consultants.

During the year ended December 31, 2000, the Company used $4.6 million to fund operating activities, as compared to $3.5 million during the year ended December 31, 1999. The $4.6 million of cash used to fund operations is net of $500,000 in proceeds received in connection with the Company s out-licensing of PRO 2000 Gel and $50,000 relating to the assignment of its licensing rights to PTM. The net increase of $1.1 million in operating cash outflow is primarily the result of the Company s increased operating activities associated with developing the Internet business.

At December 31, 2000, the Company s aggregate cash and cash equivalents were $3.0 million, a net decrease of $1.1 million from the end of the prior year. This decrease is primarily attributable to $4.6 million of cash used to fund operations, which was partly offset by cash provided by financing activities, consisting of (i) $3.1 million in proceeds from the exercise of approximately 1.3 million Class C Warrants by The Aries Trust and Aries Domestic Fund, L.P.; and (ii) $300,000 from the exercise of other warrants and stock options. Cash used in financing activities during fiscal 2000 includes $300,000 paid in satisfaction of a note assumed in connection with the HDC acquisition.

Also during fiscal 2000, the Company received net cash from investing activities of $400,000, which is comprised of $400,000 from the sale of its investment in Aquila and $200,000 from the sale of assets, primarily equipment used in its biotechnology operations, which proceeds were partly offset by capital expenditures of $200,000 during the year.

In connection with the acquisition of HDC in January 2000, each share of HDC stock was converted into approximately 0.81 shares of Common Stock or a total of 10,919,655 shares of Common Stock. In accordance with the merger agreement, the Company also issued 3,877,008 shares of Common Stock with a fair value of $23.0 million to investors in the Company s 1998 Offering, former preferred stockholders of Procept, and certain other holders of Common Stock, in exchange for the elimination of certain contractual obligations incurred in connection with the 1998 Offering, the Procept acquisition and other transactions. In addition, the Company issued 546,000 shares of Common Stock, at a fair market value of $1.1 million, as consideration for the fee due to the placement agent involved in the HDC transaction.

On March 17, 1999, the Company completed the acquisition of Procept, a publicly held research and development company engaged in the development of cancer therapies. Each of Procept s shares of common stock (including preferred stock on an as converted basis into common stock) converted into approximately 0.11 shares of Common Stock, or a total of 2,753,205 shares. An additional 414,584 shares of Common Stock were issued in the merger to the holders of Procept s preferred stock as a result of certain contractual rights identical to the Contractual Rights held by purchasers of the Company s 1998 Offering. In addition, the Company agreed to exchange all of Procept s outstanding warrants, unit purchase option and stock option obligations into like instruments of the Company. The Company also assumed a $6.5 million net obligation (payable in cash or Common Stock at the option of the Company) of BGDC. On June 30, 1999, the Company issued 2,773,575 shares of Common Stock and 924,525 Class D Warrants in exchange for the outstanding preferred stock of BGDC. The shares have contractual rights identical to those held by purchasers in the Company s 1998 Offering. The Class D Warrants are exercisable for an aggregate of 924,525 shares of Common Stock at $2.11 per share and expire on June 30, 2004.

The acquisition of Procept resulted in a cash infusion of $2.8 million. In addition, during 1999 the Company received $2.0 million from the maturity of marketable securities and $100,000 from the redemption of debentures. Total cash received from investing activities was offset by $300,000 of merger costs relating to the HDC acquisition, resulting in net cash received from investing activities of $4.6 million.

During the year ended December 31, 1999, financing activities generated net cash of $100,000, comprised of $200,000 of cash received from the exercise of Common Stock purchase warrants offset by the payment of $100,000 in satisfaction of a short-term note payable.

Recently Issued Financial and Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. (FAS) 141, Business Combinations. FAS 141 requires all business combinations to be accounted for under the purchase method of accounting. FAS 141 is effective for all business combinations initiated after June 30, 2001, as well as all business combinations accounted for under the purchase method of accounting for which the date of acquisition is July 1, 2001 or later. The Company does not anticipate that the adoption of FAS 141 will have a material impact on the consolidated financial statements.

In June 2001, the FASB issued FAS 142, Goodwill and Other Intangible Assets. FAS 142 modifies the accounting and reporting for acquired intangible assets at the time of acquisition and in subsequent periods. Intangible assets that have finite lives must be amortized over their estimated useful life. Intangible assets with indefinite lives will not be amortized, but evaluated annually for impairment. FAS 142 is effective for fiscal years beginning after December 15, 2001. The Company does not anticipate that the adoption of FAS 142 will have a material impact on the consolidated financial statements.

In June 2001, the FASB issued FAS No. 143, Accounting for Asset Retirement Obligations. FAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. FAS 143 shall be effective for financial statements issued for years beginning after June 15, 2002. Earlier application is encouraged. Initial application of this Statement shall be as of the beginning of an entity s year. The Company does not anticipate that the adoption of FAS 143 will have a material impact on the consolidated financial statements.

In August 2001, the FASB issued FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement defines the accounting and reporting for the impairment and disposal of long-lived assets and is effective for the Company on January 1, 2002. The Company does not anticipate that the adoption of FAS 144 will have a material impact on the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

In January 1997, the Securities and Exchange Commission issued Financial Reporting Release 48 (FRR 48), Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments, and Disclosure of Quantitative and Qualitative Information About Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments and Derivative Commodity Instruments. FRR 48 required disclosure of qualitative and quantitative information about market risk inherent in derivative financial instruments, other financial instruments, and derivative commodity instruments beyond those already required under generally accepted accounting principles. The Company is not a party to any of the instruments discussed in FRR 48 and considers its market risk to be minimal.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of independent accountants, are included in Part IV, Item 14(a) and are incorporated herein by reference.

Quarterly Results of Operations

The following table sets forth certain unaudited consolidated quarterly statement of operations data for the eight quarters ended December 31, 2001. This information is unaudited, but in the opinion of management, it has been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this report, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited consolidated quarterly results of operations. The consolidated quarterly data should be read in conjunction with the audited consolidated financial statements and the notes to such statements appearing elsewhere in this report. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period.

QUARTERLY FINANCIAL DATA

	2001 Quarter Ended			
	Mar. 31,	**Jun. 30,**	**Sep. 30,**	**Dec. 31,**
Total revenue	$ 33,079	$ 20,091	$ 13,055	$ 6,678
Net loss	$ (345,225)	$ (392,262)	$ (334,071)	$ (620,897)
Basic and diluted net loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding	32,490,948	32,490,948	32,490,948	32,490,948

	2000 Quarter Ended			
	Mar. 31,	**Jun. 30,**	**Sep. 30,**	**Dec. 31,**
Total revenue	$ 49,170	$ 83,231	$ 69,540	$ 51,732
Net loss	$ (20,758,836)	$ (2,579,620)	$ (2,518,005)	$ (22,128,234)
Basic and diluted net loss per common share	$ (0.79)	$ (0.08)	$ (0.08)	$ (0.68)
Weighted average number of common shares outstanding	26,160,393	32,490,948	32,490,948	32,490,948

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth the name, age and position of each person as of March 1, 2002 who is a director and/or executive officer of the Company:

Michael S. Weiss	35	Director, Chairman of the Board and Secretary
John F. Dee	44	Director and Vice Chairman of the Board
Salvatore A. Bucci	46	President and Chief Executive Officer
Elliott H. Vernon	59	Director
Zola P. Horovitz, Ph.D.	67	Director
Richard J. Kurtz	61	Director

Michael S. Weiss has been a director of the Company and Chairman of its Board of Directors since July 1997 and Secretary of the Company since October 2000. Mr. Weiss is currently Executive Chairman and Chairman of the Board of Directors of Access Oncology, Inc. From 1993 to 1999, Mr. Weiss was a Senior Managing Director of Paramount Capital, Incorporated. Prior to joining Paramount, Mr. Weiss was an attorney with Cravath, Swaine & Moore. Mr. Weiss is currently Vice Chairman of the Board of Directors of Genta Incorporated. Mr. Weiss received his J.D. from Columbia University School of Law and a B.S. in Finance from the State University of New York at Albany. Mr. Weiss devotes only a portion of his time to the business of the Company.

John F. Dee has served as Vice Chairman of the Board of Directors since February 2000 and as a director of the Company since February 1998. Mr. Dee served as President and Chief Executive Officer of the Company from February 1998 until February 2000. Mr. Dee is currently Chief Executive Officer of Hypnion, Inc., a privately held biotechnology company. From April 1997 to October 1997, Mr. Dee was Interim Chief Executive Officer of Genta Incorporated. From 1994 to 1997 and 1988 to 1992, Mr. Dee was a Senior Management Consultant with McKinsey & Company, Inc. and from 1992 to 1994 served as Chief Operating Officer, Chief Financial Officer, and Director of Walden Laboratories, Inc. (now AVAX Technologies, Inc.). Mr. Dee holds an M.S. in Engineering from Stanford University and an M.B.A. from Harvard University.

Salvatore A. Bucci has been President and Chief Executive Officer of the Company since February 2001. Mr. Bucci joined the Company in May 2000 as Senior Vice President and Chief Financial Officer and was appointed Executive Vice President and Chief Financial Officer in October 2000. Prior to joining the Company, Mr. Bucci was Senior Vice President and Chief Financial Officer of DeGeorge Financial Corporation, a publicly traded financial services and contract fulfillment company and was also President and a director of DeGeorge Capital Corp., its mortgage banking subsidiary. Prior to his 1995 to 1999 tenure at DeGeorge, Mr. Bucci served in senior financial roles in the development of several emerging growth businesses, including as Chief Financial Officer of MHI, Ltd., a privately held hospitality company and also as Vice President, Financial Services for First National Realty Associates, Inc., a publicly traded realty brokerage company, during its conversion to public ownership. Previously, Mr. Bucci held management positions in mortgage banking and realty brokerage divisions of Merrill Lynch. Mr. Bucci, a Certified

Public Accountant, began his career with Coopers & Lybrand, a predecessor firm to PricewaterhouseCoopers LLP.

Elliott H. Vernon has been a director of the Company since December 1997. Mr. Vernon has been the Chairman of the Board, President and Chief Executive Officer of HealthCare Integrated Services, Inc., a publicly held operator of fixed-site magnetic resonance imaging centers in the Northeast, since its inception in 1991. Mr. Vernon was also one of the founders of Transworld Nurses, Inc., the predecessor

of Transworld HealthCare, Inc., a publicly held regional supplier of a broad range of alternate site healthcare services and products. Mr. Vernon is also a principal of Healthcare Financial Corp., LLC, a healthcare financial consulting company engaged primarily in FDA matters. From January 1990 to December 1994, Mr. Vernon was a director, Executive Vice President and General Counsel of Aegis Holdings Corporation, an international provider of financial services through its investment management and capital markets consulting subsidiaries.

Zola P. Horovitz, Ph.D. has been a director of the Company since 1992. Dr. Horovitz, currently a consultant to pharmaceutical companies, served as Vice President - Business Development and Planning at Bristol-Myers Squibb Pharmaceutical Group, from August 1991 to April 1994, and as Vice President - Licensing, from 1989 to August 1991. Prior to 1989, Dr. Horovitz spent 30 years as a member of the Squibb Institute for Medical Research, most recently as Vice President - Research Planning. He is also a director of six other publicly traded biotechnology and pharmaceutical companies: Avigen, Inc., BioCryst, Inc., Diacrin, Inc., Magainin Pharmaceuticals, Inc., Shire Pharmaceuticals, Inc. and Synaptic Pharmaceuticals, Inc. Dr. Horovitz received his Ph.D. from the University of Pittsburgh.

Richard J. Kurtz has been a director of the Company since the acquisition of HDC in January 2000. Mr. Kurtz has been the Chairman of the Board of Directors of Urecoats Industries, Inc., a publicly traded corporation in the sealant and coating business, since February 1999. He has been the President and Chief Executive Officer of the Kamson Corporation, a privately-held corporation, for over twenty years. Kamson Corporation owns and operates real estate investment properties in the Northeastern United States. Mr. Kurtz received his B.A. from the University of Miami in 1962.

Item 11. Executive Compensation.

Summary Compensation Table

The following table sets forth certain compensation information as to the chief executive officer of the Company, who is the only executive officer of the Company (the Named Executive Officers), for each of the years ended December 31, 2001, 2000 and 1999:

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long Term Compensation Awards Securities Underlying	All Other
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Options(#)**	**Compensation ($)**
Salvatore A. Bucci(1)	2001	200,000	25,000	0	0
President and Chief Executive Officer	2000	90,968	18,750	325,000	0

(1) Mr. Bucci has been the President and Chief Executive Officer of the Company since February 2001, succeeding the prior President and Chief Executive Officer whose employment with the Company terminated on December 31, 2000. Mr. Bucci joined the Company in May 2000 as Senior Vice President and Chief Financial Officer. In October 2000, Mr. Bucci was named Executive Vice President and Chief Financial Officer. His compensation arrangements are discussed under Executive Employment Contract below.

Fiscal Year-End Option Values

The following table provides information regarding exercisable and unexercisable stock options held by the Named Executive Officers as of December 31, 2001:

FISCAL YEAR-END OPTION VALUES

Name and Principal Position	**Shares Acquired on Exercise (#)**	**Value Realized ($)**	**Fiscal Year-End (#) Exercisable/ Unexercisable**	**Value of Unexercised In-the-Money Options at Fiscal Year-End ($) Exercisable/ Unexercisable(1)**

Salvatore A. Bucci	0	0	81,250/243,750	0/0

(1) Based on the difference between the option exercise price and the closing price of the underlying Common Stock on December 31, 2001, which closing price was $0.03.

EXECUTIVE EMPLOYMENT CONTRACT

Provided below is information concerning the employment arrangement that the company has entered into with its executive officer.

Salvatore A. Bucci. On May 25, 2000, the Company and Mr. Bucci entered into an employment agreement (the Original Agreement) providing for Mr. Bucci to serve as Senior Vice President and Chief Financial Officer of the Company for a period of two years. On October 6, 2000, Mr. Bucci was appointed Executive Vice President and Chief Financial Officer and on February 9, 2001, Mr. Bucci was named President and Chief Executive Officer. The Original Agreement entitled Mr. Bucci to receive a minimum annual base salary of $150,000 and a minimum annual bonus of $25,000, which minimum annual bonus was required to be paid to Mr. Bucci in quarterly installments over the term of the Original Agreement. The amount of Mr. Bucci s actual bonus is determined annually by the Compensation Committee in light of his and the Company s performance over the prior year. Mr. Bucci also received an option to purchase 325,000 shares of Common Stock, with vesting to occur in quarterly installments over a four year period. If the company terminates Mr. Bucci s employment without cause, or if Mr. Bucci terminates his employment because there has been a change of control of the Company, then Mr. Bucci is entitled to receive (i) severance payments in a lump sum equal to one-half of his most recent base salary plus one-half of the amount of cash bonus most recently awarded, and (ii) immediate vesting and exercisability of any unvested options then held by Mr. Bucci. Effective with Mr. Bucci s appointment as President and Chief Executive Officer, the Company and Mr. Bucci amended the terms of the Original Agreement (the Amended Agreement). The Amended Agreement provides for (i) a minimum annual base salary of $200,000, effective January 1, 2001; (ii) a bonus of $25,000, which was paid upon execution of the Amended Agreement; and (iii) the elimination of the minimum annual bonus.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

During fiscal 2001, the Compensation Committee of the Board of Directors (Compensation Committee) consisted of Zola P. Horovitz, Ph.D. and Michael S. Weiss. The Compensation Committee s responsibilities include: (i) reviewing the performance of the Chief Executive Officer and the other executive officers of the Company and making determinations as to their cash and equity-based compensation and benefits, and (ii) administration of employee stock option grants and stock awards. The Committee met one time during fiscal 2001. The Compensation Committee submits this report on compensation policies and actions during fiscal 2001 with respect to Mr. Salvatore A. Bucci, in his capacity as President and Chief Executive Officer of the Company.

Compensation Philosophy

The Company s executive compensation policy is comprised of three principal elements: base salary, cash or stock bonuses based on performance and stock option grants, and is designed to attract, retain and reward executive officers who contribute to the long term success of the Company. Through its compensation policy, the Company strives to provide total compensation that is competitive with other companies in comparable lines of business. The compensation program includes both motivational and retention-related compensation components. Individual performance that meets and exceeds the Company s plans and objectives is encouraged through bonus awards, and stock options are granted to connect the performance of the Common Stock with the compensation of its executives.

The Company endeavors to reward each executive s achievement of goals related to the Company s annual and long-term performances and individual fulfillment of responsibilities. While compensation survey data provide useful guides for comparative purposes, the Compensation Committee believes that an effective compensation program also requires the application of judgment and subjective

determinations of individual performance. Accordingly, the Compensation Committee members apply their judgment to reconcile the program s objectives with the realities of retaining valued employees.

Chief Executive Officer Compensation

Salvatore A. Bucci has served as the Chief Executive Officer since February 2001. Pursuant to his amended employment agreement, Mr. Bucci is entitled to receive a base salary of $200,000 per annum. Mr. Bucci is also eligible to receive bonus compensation, which amount and form are determinable and at the discretion of the Compensation Committee or the Board of Directors of the Company.

On May 16, 2001, the Compensation Committee met to consider a request by Mr. Bucci to provide certain advisory services to HealthCare Integrated Services, Inc., a company to which Mr. Vernon, a director of the Company, is the Chairman and Chief Executive Officer. The Company granted Mr. Bucci s request.

Compensation of Other Executive Officers

Mr. Bucci was the sole executive officer of the Company during fiscal 2001.

Stock Options

Stock options generally are granted to the Company s executive officers at the time of their hire and at such other times as the Compensation Committee may deem appropriate, such as in connection with a promotion or upon nearing full vesting of prior options. In determining option grants, the Compensation Committee considers the same industry survey data as used in its analysis of base salaries and bonuses, and strives to make awards that are in line with its competitors. In general, the number of shares of Common Stock underlying the stock options granted to each executive reflects the significance of that executive s current and anticipated contributions to the Company.

In addition, the stock option grants made by the Compensation Committee are designed to align the interests of management with those of the stockholders. In order to maintain the incentive and retention aspects of these grants, the Compensation Committee has determined that a significant percentage of any officer s stock options should be unvested option shares.

The value that may be realized from exercisable options depends on whether the price of the Common Stock at any particular point in time accurately reflects the Company s performance. However, each individual optionholder, and not the Compensation Committee, makes the determination as to whether to exercise options that have vested in any particular year.

Compliance With Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public company for compensation over $1 million paid to its Chief Executive Officer and its four other most highly compensated executive officers. However, if certain performance-based requirements are met, qualifying compensation will not be subject to this deduction limit.

By the Compensation Committee,
Zola P. Horovitz, Ph.D.
Michael S. Weiss

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative stockholder returns on the Common Stock over the five year period from December 31, 1996 to December 31, 2001, as compared with that of the Hambrecht & Quist (H&Q) Biotechnology Index and the S&P 500 Composite Index during the same period. The graph assumes an initial investment of $100 on December 31, 1996 in the Common Stock, the H&Q Biotechnology Index and the S&P 500 Composite Index, with all dividends, if any, being reinvested.

	12/31/1996	12/31/1997	12/31/1998	12/31/1999	12/31/2000	12/31/2001
PALIGENT INC.	$ 100.00	$ 13.45	$ 3.36	$ 4.96	$ 0.08	$ 0.04
H&Q BIOTECHNOLGY INDEX	$ 100.00	$ 10122	$ 154.14	$ 329.48	$ 354.22	$ 390.16
S&P COMPOSITE INDEX	$ 100.00	$ 133.36	$ 171.47	$ 207.56	$ 188.66	$ 166.24

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table and footnotes set forth certain information regarding the beneficial ownership of Common Stock as of March 1, 2002 by (i) the only persons known to the Company to be beneficial owners of more than 5% of Common Stock, (ii) the Named Executive Officers, (iii) each director, and (iv) all current executive officers and directors as a group.

Beneficial Owner	Common Stock Beneficially Owned(1)	
	Shares	Percent
Aries Select, Ltd.	15,695,804(2)	41.75
Aries Select I, LLC		
The Aries Trust		
Aries Domestic Fund, L.P.		
Paramount Capital Investments, LLC		
Paramount Capital, Incorporated		
Paramount Capital Asset Management, Inc.		
Lindsay A. Rosenwald, M.D.		
c/o Paramount Capital Asset Management, Inc.		
787 Seventh Avenue		
New York, New York 10019		
John F. Dee	1,436,895(3)	4.24
Michael S. Weiss	871,503(4)	2.64
Elliott H. Vernon	338,191(5)	*
Zola P. Horovitz, Ph.D.	239,978(6)	*
Richard J. Kurtz	5,982,984	18.41
Salvatore A. Bucci	81,250(7)	*
All current executive officers and directors as a group (6 persons)	8,950,801(8)	25.33

* Indicates less than 1%

(1) Unless otherwise indicated in these footnotes, each stockholder has sole voting and investment power with respect to the shares of Common Stock shown as beneficially owned by such stockholder, subject to community property laws where applicable. Shares of Common Stock issuable upon the exercise of options or warrants currently exercisable or exercisable within 60 days of March 1, 2002 are treated as outstanding solely for the purpose of calculating the amount and percentage of shares beneficially owned by the holder of such options or warrants.

(2) Collectively, the Paramount Affiliates. Reported ownership consists of:

(A) the following holdings of Aries Select, Ltd.: (i) 5,827,667 shares of Common Stock; (ii) 495,444 shares issuable upon exercise of Class C Warrrants; (iii) 112,902 shares issuable upon exercise of 1998 Unit Purchase Options; (iv) 51,067 shares issuable upon exercise of Class C Warrants issuable on exercise of 1998 Unit Purchase Options; (v) 88,836 shares issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (vi) 9,062 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (vii) 2,716 shares issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (viii) 3,395 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (ix) 117,777 shares issuable upon exercise of Class A Warrants originally issued by Procept; and (x) 441,000 shares issuable upon exercise of Class D Warrants;

(B) the following holdings of Aries Select I, LLC: (i) 2,906,869 shares of Common Stock; (ii) 258,104 shares issuable upon exercise of Class C Warrrants; (iii) 55,608 shares issuable upon exercise of 1998

Unit Purchase Options; (iv) 25,152 shares issuable upon exercise of Class C Warrants issuable on exercise of 1998 Unit Purchase Options; (v) 45,792 shares issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (vi) 4,671 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (vii) 2,716 shares issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (viii) 3,395 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (ix) 73,872 shares issuable upon exercise of Class A Warrants originally issued by Procept; and (x) 189,000 shares issuable upon exercise of Class D Warrants;

(C) 904,125 shares of Common Stock held by The Aries Trust;

(D) 497,371 shares of Common Stock held by Aries Domestic Fund, L.P.;

(E) 10,865 shares held by Paramount Capital Investments, LLC;

(F) 56,128 shares held by Paramount Capital, Incorporated; and

(G) the following holdings of Lindsay A. Rosenwald, M.D.: (i) 391,774 shares of Common Stock; (ii) 936,954 shares issuable upon exercise of 1998 Unit Purchase Options; (iii) 425,069 shares issuable upon exercise of Class C Warrants issuable on exercise of 1998 Unit Purchase Options; (iv) 843,445 shares issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (v) 86,292 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (vi) 20,879 shares issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (vii) 26,099 issuable upon exercise of Class A Warrants issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; and (viii) 781,758 shares issuable upon exercise of Class E Warrants.

(3) Includes 1,436,795 shares issuable to Mr. Dee upon the exercise of options currently exercisable or exercisable within 60 days of March 1, 2002.

(4) Consists of: (i) 17,893 outstanding shares of Common Stock; (ii) 234,685 shares issuable to Mr. Weiss upon the exercise of options currently exercisable or exercisable within 60 days of March 1, 2002; (iii) 45,022 shares issuable upon exercise of 1998 Unit Purchase Options; (iv) 20,426 shares issuable upon the exercise of Class C Warrants issuable upon the exercise of 1998 Unit Purchase Options; (v) 181,725 shares issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (vi) 18,592 shares issuable upon exercise of Class A Warrants issuable on exercise of 1997 Unit Purchase Options originally issued by Procept; (vii) 2,230 shares issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (viii) 2,787 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (ix) 34,678 shares issuable upon exercise of Class E Warrants; and (x) options held by Hawkins Group, LLC to purchase units consisting of an aggregate of 215,637 shares of Common Stock, plus Class C Warrants to purchase 97,828 shares of Common Stock. Mr. Weiss is a managing member of the Hawkins Group, LLC and disclaims beneficial ownership of its shares except to the extent of his pecuniary interest therein, if any.

(5) Includes 228,991 shares issuable to Mr. Vernon upon the exercise of options currently exercisable.

(6) Represents shares issuable to Dr. Horovitz upon the exercise of options currently exercisable.

(7) Represents shares issuable to Mr. Bucci upon the exercise of options currently exercisable.

(8) Includes 2,221,699 shares issuable to directors and executive officers upon the exercise of options currently exercisable or exercisable within 60 days of March 1, 2002.

Item 13. Certain Relationships and Related Transactions.

Transactions with Directors and Officers

Certain members of the Company s Board of Directors received fees in connection with their service to the Company as members of the Board of Directors and, in certain cases, were also compensated as consultants by the Company. Messrs. Weiss and Vernon and Dr. Horovitz were each paid cash compensation at the rate of $10,000 per annum for their services as directors during each of the years ended December 31, 2001, 2000 and 1999. In addition, Messrs. Weiss and Vernon were each paid $50,000 as remuneration for their consulting services to the Company during fiscal 2001.

From time to time during fiscal 2001, Mr. Bucci provided advisory services to HealthCare Integrated Services, Inc., to which Mr. Vernon, a director of the Company, is the Chairman and Chief Executive Officer. The fair value of these services was less than $60,000.

In November 1999, Howard Weiser, a director of the Company from January 2000 until his resignation from the Board of Directors in April 2001, borrowed $25,000 from HDC and executed a note in favor of HDC (the HDC Note). The Company acquired HDC in January 2000, including Mr. Weiser s note, which was payable on demand, with interest at the rate of nine and one-half percent per annum. As part of the merger, the Company and Mr. Weiser entered into a consulting arrangement whereby Mr. Weiser would provide consulting services for a one-year period from the date of the merger for a fee of $100,000, payable in periodic installments. During the course of the consulting period, the Company offset the full amount of principal and accrued interest due under the HDC Note against installment payments due under the consulting arrangement. The consulting arrangement ended in January 2001.

In connection with the acquisition of HDC, the Company issued 375,000 shares of Common Stock to each of Howard Weiser, then a director, and Richard J. Kurtz, a director of the Company, as payment for consulting services. The 750,000 shares of Common Stock had a fair value of $4.5 million; accordingly, a charge of $4.5 million was recorded during the year ended December 31, 2000.

As part of the acquisition of HDC, the Company assumed notes payable in the amount of $290,019, payable to Richard J. Kurtz, a director of the Company and a former stockholder of HDC. In May 2000, the Company paid $243,068 to Mr. Kurtz, consisting of $235,019 of principal plus $8,049 of accrued interest. In September 2000, the Company made principal and interest payments of $55,000 and $3,841, respectively, to Mr. Kurtz in satisfaction of its remaining obligation.

On June 14, 2000, the Company entered into an agreement with Interneuron for the out-licensing of PRO 2000 Gel. Glenn L. Cooper, M.D., a director of the Company at the time of the agreement, is the President and Chief Executive Officer of Interneuron. In addition, the principal stockholder of the Company is a stockholder of Interneuron. Pursuant to this agreement, the Company received a payment of $500,000 in June 2000, which is included in other income for the year ended December 31, 2000. The Company retains certain future rights to PRO 2000 Gel under the licensing agreement, including (i) provisions for the receipt of additional payments based upon the achievement of certain milestones; and (ii) royalties from future commercial sales of PRO 2000 Gel, if any. Interneuron has an option, for a limited period of time, to purchase future royalty rights relating to PRO 2000 Gel. The Company, however, has no further obligation to fund research and development for PRO 2000 Gel.

On June 30, 2000, the Company issued 34,678 Class E Warrants to Michael S. Weiss, Chairman of the Board of Directors of the Company, in exchange for warrants to purchase shares of Series A Convertible Preferred Stock of BGDC. The Warrants are exercisable at $2.11 per share and expire on June 30, 2004.

On October 17, 2000, the Company entered into a non-binding letter of intent to acquire WWH Insurance Services, Inc. (WWH). WWH is a privately held national independent distributor of life and health insurance products. Philip C. Pauze, then a director of the Company, is a director and stockholder of WWH. The acquisition of WWH was expected to broaden the Company s reach into products and services for senior citizens, beyond that originally anticipated with the acquisition of HDC, whose operations were primarily Web-centric. WWH targets consumers through direct marketing channels; primarily, via cable television programs whose audience meets the demographic profile of WWH s target market. During the due diligence review period, the Company advanced $50,000 to WWH to pay for operating expenses. In December 2000, the Company determined not to proceed with the acquisition of WWH.

On October 13, 2000, Procept entered into an agreement with AOI to sublicense its exclusive worldwide patent rights and know-how relating to O6-BG. Mr. Weiss is the Chairman of the Board of AOI. In addition, the principal stockholder of the Company is a stockholder of an affiliate of AOI. Pursuant to this agreement, Procept sublicensed all development and licensing rights to AOI in exchange for future royalties on net sales of O6-BG. The agreement also provides for cash payments to Procept based upon the achievement of certain developmental milestones. In addition, AOI assumed all financial obligations of Procept relating to its licensing of worldwide patent rights as of the effective date of the agreement. On November 22, 2000, Procept was notified by PSRFthat it was in default of its material obligations under the License Agreement, and that such default invalidated the Sublicense Agreement. While the Company believed that PSRF s claims were without merit, the Company pursued discussions with PSRF, NIH and NCI, in an effort to resolve the claims made by PSRF. On February 28, 2002, Procept and PHS, represented by NIH, executed the New License Agreement, which superceded the License Agreement. The New License Agreement affirms Procept s worldwide patent rights to O6-BG and related compounds, and acknowledges the Sublicense Agreement as of the date executed by Procept and AOI. At the time of executing the New License Agreement, Procept paid to PHS a one-time license issue royalty fee of $86,000 for accrued outstanding patent prosecution costs. In connection with the execution of the New License Agreement, Procept, together with the NCI and AOI, also executed the Amended CRADA, pursuant to which AOI replaced Procept as Collaborator (i.e., the research and development partner). Under terms of the Amended CRADA, AOI assumed direct responsibility for all remaining research and payment obligations, effective as of February 28, 2002. As part of the Amended CRADA, Procept made a final payment of $200,000 to NCI for accrued production and clinical distribution costs relating to O6-BG. Prior to executing the Amended CRADA, AOI had been obligated to reimburse Procept for costs that Procept paid under the CRADA, pursuant to, and subsequent to the effective date of, the Sublicense Agreement. While the Company was endeavoring to resolve this matter, Procept and AOI had agreed that AOI would defer its reimbursement to Procept for costs that Procept had paid relating to its licensing of patent rights and CRADA obligations. As of December 31, 2001, such reimbursable costs amounted to $137,000. Commensurate with the resolution of this matter on February 28, 2002, AOI paid to the Company the total balance of deferred reimbursable costs.

Transactions with Paramount Affiliates

Various entities affiliated with Paramount Capital Asset Management, Inc., as set forth in Item 12. Security Ownership of Certain Beneficial Owners and Management are significant stockholders of the Company. As of March 1, 2002, Aries Select, Ltd., Aries Select I, LLC, The Aries Trust, Aries Domestic Fund, L.P., Paramount Capital Investments, LLC, Paramount Capital, Incorporated, Paramount Capital Asset Management, Inc. and Lindsay A. Rosenwald, M.D. (collectively, the Paramount Affiliates), are the holders of an aggregate of approximately 10,594,799 shares of Common Stock, representing 32.6% of the outstanding shares of Common Stock. In addition, the Paramount Affiliates hold 5,101.005 warrants and options to purchase Common Stock. Mark C. Rogers, M.D., President and Chief Executive Officer

of Paramount Capital, Incorporated (Paramount) was a member of the Company s Board of Directors from 1997 to August 2000.

Certain Paramount Affiliates have a contractual right to designate a majority of the members of the Company s Board of Directors until June 30, 2002. In addition, as long as the Paramount Affiliates hold at least 5% of the voting stock of the Company, the Company must obtain the consent of these Paramount Affiliates prior to (i) incorporating, acquiring, dissolving or disposing of any subsidiaries; (ii) incurring any indebtedness outside the ordinary course of business; (iii) engaging in transactions with other affiliates; or (iv) increasing executive compensation or bonuses, except for bonuses guaranteed in an employment contract.

Under an agreement dated October 26, 1999, the Company engaged Paramount as a financial advisor in connection with its proposed transaction to acquire HDC. At the time of merger with HDC, the Company issued 546,000 shares of Common Stock as consideration for the fee due under this agreement, with a fair market value of $1.1 million.

On April 9, 1998, the Company entered into a Financial Advisory Agreement with Paramount pursuant to which Paramount was entitled to receive a monthly retainer of $3,000 for a minimum of 24 months, out-of-pocket expenses and certain cash and equity success fees in the event Paramount assisted the Company with certain financing and strategic transactions. During the year ended December 31, 1999, the Company paid Paramount approximately $44,000 under this agreement. This agreement was terminated by mutual agreement of the parties, effective September 30, 1999.

In connection with the acquisition of Procept on March 17, 1999, the Company issued an aggregate of 1,102,504 shares of Common Stock to the Paramount Affiliates in exchange for their shares of Procept common stock and pursuant to the Contractual Anti-Dilution and Contractual Reset Rights contained in the 1998 Offering. The Company also issued to the Paramount Affiliates (i) an aggregate of 160,160 shares of Common Stock as payment for brokerage services in connection with the Procept merger, and (ii) cash of $50,000 plus an aggregate of 320,126 shares of Common Stock in connection with the cancellation of certain indebtedness incurred by Procept to the Paramount Affiliates through Procept s merger with Binary, and pursuant to the Contractual Anti-dilution and Contractual Reset Rights contained in the 1998 Offering.

Also, in connection with the acquisition of Procept, the Company assumed a $6.5 million net obligation of BGDC. As payment of this obligation, the Company issued 2,773,575 shares of Common Stock and Class D Warrants to purchase an aggregate of 924,525 shares of Common Stock in exchange for all of the outstanding shares of BGDC Series A Convertible Preferred Stock. On June 30, 1999, the Paramount Affiliates exchanged their BGDC Series A Convertible Preferred Stock for an aggregate of 1,890,000 shares of Common Stock and Class D Warrants to purchase an aggregate of 630,000 shares of Common Stock.

On April 9, 1999, the Company issued 3,970,734 shares of Common Stock pursuant to the Contractual Reset Rights contained in the 1998 Offering held by certain of the Company s stockholders, including those who purchased their shares in the 1998 Offering. An aggregate of 1,842,813 shares were issued to the Paramount Affiliates pursuant to the Contractual Reset Rights.

On October 9, 1999, the Company issued 562,961 shares of Common Stock pursuant to the Contractual Dividend Rights held by certain holders of the Common Stock, including those who purchased their shares in the 1998 Offering. An aggregate of 311,267 shares were issued to the Paramount Affiliates pursuant to this Contractual Dividend Right.

On March 28, 2000, The Aries Trust and Aries Domestic Fund, L.P. exercised an aggregate of 1,291,666 Class C Warrants in exchange for 1,291,666 shares of Common Stock, which exercise generated $3.1 million in proceeds to the Company. The Class C Warrants were exercised at $2.40 per warrant, representing a discount of $0.88 to the contractual exercise price of $3.28 per warrant. The Company recorded a charge of $155,000 directly to equity, representing the fair market value of the discount given to the holders of certain exercised Class C Warrants.

On June 30, 2000, the Company issued 781,758 Class E Warrants to the Paramount Affiliates in exchange for warrants to purchase shares of Series A Convertible Preferred Stock of BGDC. The Warrants are exercisable at $2.11 per share and expire on June 30, 2004.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Financial Statements.

Report of Independent Accountants

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Operations
For the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Stockholders Equity
For the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows
For the years ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements

Financial Statement Schedules.

All schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or are included in the Notes to Consolidated Financial Statements.

(b) **Reports on Form 8-K.**

None.

(c) **Exhibits.**

No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 26, 2000. Filed as Exhibit 4.1 to the Company s Registration Statement on Form S-8, Commission File No. 333-45168, and incorporated herein by reference.
3.2	Certificate of Ownership and Merger of Paligent Inc. into HeavenlyDoor.com, Inc., filed with the Secretary of State of Delaware on December 28, 2000, to be effective as of December 31, 2000. Filed as Exhibit 3.2 to the Company s Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incorporated herein by reference.
3.3	By-laws of Paligent Inc. Filed as Exhibit 3.3 to the Registrant s Registration Statement on Form S-1, Commission File No. 33-57188, and incorporated herein by reference.
4.1	Form of Class C Warrant to Purchase Common Stock dated April 9, 1998, including Schedule of Holders. Filed as Exhibit 4.18 to the Company s Registration Statement on Form S-3, Commission File No. 333-51245, and incorporated herein by reference.
4.2	Class A Warrants (originally issued by Procept, Inc.) held by a Schedule of Holders. Filed as Exhibit 4.3 to the Company s Form 8-K filed on March 31, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.3	Aries Warrants (originally issued by Procept, Inc.) held by The Aries Trust and Aries Domestic Fund, L.P. Filed as Exhibit 4.5 to the Company s Form 8-K, filed on March 31, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.4	1995 Unit Purchase Options (originally issued by Procept, Inc.) held by a Schedule of Holders. Filed as Exhibit 4.1 to the Company s Form 8-K filed on March 31, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.5	1997 Unit Purchase Options (originally issued by Procept, Inc.) held by a Schedule of Holders. Filed as Exhibit 4.2 to the Company s Form 8-K filed on March 31, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.6	Common Stock Purchase Warrant issued in June 1999 to Wound Healing of Oklahoma. Filed as Exhibit 4.1 to the Company s Form 10-Q for the quarter ended June 30, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.7	Class D Warrants issued in June 1999 to a Schedule of Holders. Filed as Exhibit 4.2 to the Company s Form 10-Q for the quarter ended June 30, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.8	Form of Unit Purchase Option, including Schedule of Holders. Filed as Exhibit 4.2 to the Company s Form 10-Q for the quarter ended June 30, 1998, Commission File No. 0-21134, and incorporated herein by reference.
4.9	The 1998 Equity Incentive Plan, as amended through June 30, 1999. Filed as Exhibit 10.1 to the Company s Form 10-Q for the quarter ended June 30, 999, Commission File No. 0-21134, and incorporated herein by reference.
4.10	The 1994 Employee Stock Purchase Plan, as amended. Filed as Exhibit 10.2 to the Company s Form 10-Q for the quarter ended June 30, 1997, Commission File No. 0-21134, and incorporated herein by reference.
10.1	Lease for 369 Lexington Avenue, New York, New York, dated April 19, 2000 between the Company and 369 Lexington Avenue Co., L.P. Filed as Exhibit 10.1 to the Company s Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incorporated herein by reference.
10.2	Licensing Agreement by and between the Company and Interneuron Pharmaceuticals, Inc. dated June 14, 2000. Filed as Exhibit 10.21 to the Company s Form 10-Q for the quarter ended June 30, 2000, Commission File No. 0-21134, and incorporated herein by reference. (The Company submitted a confidentiality request for certain parts of this exhibit.)
10.3	Executive Employment Agreement dated as of May 25, 2000, as amended February 9, 2001, between the Company and Salvatore A. Bucci. Filed as Exhibit 10.5 to the Company s Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incorporated herein by reference.
10.4	

Sublicense Agreement by and between Procept, Inc. and AOI Pharmaceuticals Inc., dated as of October 13, 2000. Filed as Exhibit 10.6 to the Company s Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incorporated herein by reference.