BRANTLEY CAPITAL CORP
Form 10-Q/A
July 30, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 814-00127

BRANTLEY CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**34-1838462**
(State or other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

3201 Enterprise Parkway, Suite 350, Cleveland, Ohio 44122

(Address of principal executive offices including zip code)

(216) 464-8400

(Registrant s telephone number including area code)

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

The number of shares of common stock, $.01 par value, outstanding as of March 31, 2002 was 3,810,535.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BRANTLEY CAPITAL CORPORATION

BALANCE SHEETS

	March 31, 2002 (Unaudited)	December 31, 2001 (Audited)
ASSETS		
Investments, at market	$64,733,175	$60,311,107
Cash and cash equivalents		5,369,345
Restricted cash	6,000,000	6,000,000
Dividends and interest receivable	3,949,633	3,493,059
Other assets	357,969	360,158
Total Assets	$75,040,777	$75,533,669
LIABILITIES AND STOCKHOLDERS EQUITY		
Note payable	$ 6,000,000	$ 6,000,000
Payable for investments purchased		200,000
Advisory fee payable	591,124	487,931
Accrued professional fees	121,819	53,163
Distributions payable		736,455
Other liabilities	307,512	49,806
Total Liabilities	7,020,455	7,527,355
Stockholders Equity:		
Common Stock, $0.01 par value; 25,000,000 shares authorized and 3,810,535 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	38,105	38,105
Additional paid in capital	37,484,895	37,484,895
Retained earnings	30,497,322	30,483,314
Total Stockholders Equity	68,020,322	68,006,314
Total Liabilities and Stockholders Equity	$75,040,777	$75,533,669
Net Asset Value Per Share	$ 17.85	$ 17.85

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

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BRANTLEY CAPITAL CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	For the quarter ended March 31, 2002	For the quarter ended March 31, 2001
Investment Income:		
Interest	$ 182,639	$ 168,505
Dividends	295,301	271,458
Total investment income	477,940	439,963
Operating Expenses:		
Advisory fees	488,124	351,571
Administration fees	18,493	18,288
Professional fees	45,616	99,110
Interest expense	154,076	135,081
Other	49,927	147,668
Total operating expenses	756,236	751,718
Investment Income (Loss), net	(278,296)	(311,755)
Net Realized and Unrealized Gains (Losses) on Investments:		
Net realized gains (losses) on investments	(441,234)	407,096
Net unrealized gains on investments	733,538	68,518
Net realized and unrealized gains on investment transactions	292,304	475,614
Net increase in net assets resulting from operations	$ 14,008	$ 163,859
Net increase in net assets from operations per share, primary and fully diluted	$ 0.00	$ 0.04
Weighted average number of shares outstanding, primary and fully diluted	3,810,535	3,810,535

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

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BRANTLEY CAPITAL CORPORATION

STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders Equity
Balance at December 31, 1999	$38,105	$37,505,433	$14,896,797	$52,440,335
Net increase in net assets from operations			1,879,315	1,879,315
Distributions from:				
Net investment income		(20,538)	(112,831)	(133,369)
Net realized gains			(2,243,262)	(2,243,262)
Balance at December 31, 2000	$38,105	$37,484,895	$14,420,019	$51,943,019
Net increase in net assets from operations			16,799,750	16,799,750
Distributions from:				
Net investment income				
Net realized gains			(736,455)	(736,455)
Balance at December 31, 2001	$38,105	$37,484,895	$30,483,314	$68,006,314
Net increase in net assets from operations			14,008	14,008
Balance at March 31, 2002	$38,105	$37,484,895	$30,497,322	$68,020,322

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

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BRANTLEY CAPITAL CORPORATION

STATEMENTS OF CASH FLOWS

(Unaudited)

	For the quarter ended March 31, 2002	For the quarter ended March 31, 2001
Cash Flows from Operating Activities:		
Net change in net assets resulting from operations:	$ 14,008	$ 163,859
Adjustments to reconcile net change in net assets resulting from operations to net cash used for operations:		
Net realized (gains) losses from investments	441,234	(407,096)
Net unrealized gains on investments	(733,538)	(68,518)
Changes in assets and liabilities:		
Dividend and interest receivable	(456,574)	(297,710)
Other assets	2,189	2,189
Advisory fee payable	103,193	(19,812)
Accrued professional fees	68,656	(49,758)
Dividends payable	(736,455)	
Other liabilities	57,706	192,546
Net cash used for operating activities	(1,239,581)	(484,300)
Cash Flows from Investing Activities:		
Purchases of investment securities	(5,945,482)	(722,225)
Sales/Maturities of investment securities	1,815,718	1,123,297
Purchases of short-term investments		(514,416,928)
Sales/Maturities of short-term investments		514,416,321
Net cash used for investing activities	(4,129,764)	400,465
Net change in cash and cash equivalents for the period	(5,369,345)	(83,835)
Cash, cash equivalents and restricted cash, beginning of period	11,369,345	14,882,432
Cash, cash equivalents and restricted cash, end of the period	$ 6,000,000	$ 14,798,597

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

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BRANTLEY CAPITAL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. Significant Accounting Policies

The interim financial statements have been prepared by Brantley Capital Corporation (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reports on Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and related notes and schedules included in the Company s 2001 Annual Report filed on Form 10-K dated December 31, 2001.

The unaudited financial statements reflect, in the opinion of management, all adjustments, all of which are of a normal recurring nature, necessary to present fairly the financial position of the Company as of March 31, 2002, the results of its operations for the quarter ended March 31, 2002, and its cash flows for the quarter ended March 31, 2002. Interim results are not necessarily indicative of results to be expected for a full fiscal year.

Privately placed securities are carried at fair value as determined in good faith by or under the direction of the Board of Directors. Generally, the fair value of each security will initially be based primarily upon its original cost to the Company. Cost will be the primary factor used to determine fair value on an ongoing basis until significant developments or other factors affecting the investment (such as results of the portfolio company s operations, changes in the general market conditions, subsequent financings or the availability of market quotations) provide a basis for value other than cost valuation.

Portfolio investments listed on an exchange or traded on NASDAQ National Market are valued at the closing price listed on their respective exchange or system on the date of valuation. Securities traded in the over-the-counter market will be valued on the average of the closing bid and asked prices on the day of valuation.

Debt securities with 60 days or less remaining to maturity will be valued at amortized cost.

2. Investments, Cash and Cash Equivalents

As of March 31, 2002 and December 31, 2001, the identified costs of investments, cash, cash equivalents and restricted cash were $38,591,708 and $40,292,851, respectively.

Cash equivalents consist of highly liquid investments with insignificant interest rate risk and original maturities of three months or less at acquisition date. Cash and cash equivalents consisted of the following:

	March 31, 2002 (Unaudited)	December 31, 2001 (Audited)
Cash	$	$5,369,345
Non-restricted Cash	$	$5,369,345
Restricted Cash	$6,000,000	$6,000,000

3. Investment Advisory Agreement

The Company has entered into an investment advisory agreement (the Investment Advisory Agreement) with Brantley Capital Management, L.L.C. (the Investment Adviser) under which the Investment Adviser is entitled to an annual management fee of 2.85% of the Company s net assets, determined at the end of each calendar quarter, and payable quarterly in arrears throughout the term of the Investment Advisory Agreement. For the quarter ended March 31, 2002, the Investment Adviser earned $488,124 under the Investment Advisory Agreement. Certain officers of the Company are also officers of the Investment Adviser.

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BRANTLEY CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (Continued)

No officer of the Investment Adviser receives any compensation from the Company for serving as officer of the Company.

4. Financial Highlights

	For the quarter ended March 31, 2002	For the quarter ended March 31, 2001
Net Asset Value, Beginning of the Period	$17.85	$13.63
Income from investment operations:		
Net investment income/(loss)	(0.07)	(0.08)
Net realized and unrealized gain on investments	0.07	0.12
Total from investment operations	0.00	0.04
Net Asset Value, End of Period	$17.85	$13.67
Market Value, End of Period	$10.34	$ 8.00
Total return, at Market Value	(5.05)%(1)	(7.25)%(1)
Total return, at Net Asset Value	0.00%(1)	0.29%(1)
Total Expenses/Average net assets	1.11%(1)	1.28%(1)
Net Investment Income/Average net assets	(0.41)%(1)	(0.53)%(1)

(1) Not annualized

5. Schedule of Investments

		March 31, 200	
Name of Issuer and Title of Issue		Shares/Par	Va
cs			
	Flight Options International, Inc. Preferred Stock *#	3,342,060	$32,5
ss Services			
	Disposable Products Company, LLC Subordinated Debt #	1,779,667	1,7

	The Holland Group, Inc. Preferred Stock #	282,530	2,1
	The Holland Group, Inc. Subordinated Note #	50,000	
	International Total Services, Inc. Common Stock	104,250	
	NCO Group, Inc. Common Stock	11,750	3
	Prime Office Products, Inc. Preferred Stock #	710,000	1,4
	Rent-A-Center, Inc. Common Stock	9,300	4
			6,1

& Health Care

	Health Care Solutions, Inc. Subordinated Debt with Warrants *#	3,549,000	3,5
	ICU Medical Industries Common Stock	11,250	4
	KV Pharmaceutical, Inc. Common Stock	13,000	3
	National Rehabilitation Partners, Inc. Preferred Stock #	2,218,375	1,4

with or furnished to the Securities and Exchange Commission. The reference to our website address does not constitute ration by reference of the information contained on the website, which should not be considered part of this document. nally, you may read and copy materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E. gton, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at SEC-0330.

fic Advisory Board

have established a scientific advisory board to provide guidance and counsel on aspects of our business. The board convenes nce a year and individual members are contacted as required. Members of the advisory board provide input on product research velopment strategy, education and publication plans. The names and members of the advisory board are as follows:

ne Alexander, M.D., Ph.D., *Chairman*	Chairman, Department of Medicine, Emory University School of Medicine
W. Gelfand, M.D.	Chairman, Department of Pediatrics, National Jewish Medical and Research Center
. Johnson, Ph.D.	Professor and Chairman, Department of Pharmacology, University of North Carolina School of Medicine

ibby, M.D.	Chief, Cardiovascular Division Department of Medicine, Brigham and Women s Hospital

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1A. ***Risk Factors***

ard-Looking Statements and Risks Related to Our Company and Business

e Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking ents made by or on behalf of AtheroGenics. AtheroGenics and its representatives may from time to time written or oral forward-looking statements, including statements contained in this report and our other with the Securities and Exchange Commission and in our reports to our shareholders. Generally, the , believe, expect, intend, estimate, anticipate, will and similar expressions identify rd-looking statements. All statements which address operating performance, events or developments that pect or anticipate will occur in the future, including projections of our future results of operations or of nancial condition, research, development and commercialization of our product candidates, expected regarding the completion of our clinical trials and the related release of results and anticipated trends business, are forward-looking statements within the meaning of the Reform Act. The forward-looking ents are and will be based on our then current views and assumptions regarding future events and ting performance, and speak only as of their dates. We undertake no obligation to publicly update or any forward-looking statements, whether as a result of new information, future events or otherwise. e following are some of the factors that could affect our financial performance or could cause actual s to differ materially from those expressed or implied in our forward-looking statements:

Related to Our Financial Results and Need for Additional Financing

ve a history of operating losses, and we may not generate revenue or achieve profitability in the .

r ability to generate revenue and achieve profitability depends on our ability, alone or with collaborators, mplete successfully the development of our product candidates, conduct preclinical tests and clinical obtain the necessary regulatory approvals and manufacture and market the resulting drugs. We have had oduct revenue to date. We have experienced operating losses since we began operations in 1994. As of mber 31, 2006, we had an accumulated deficit of approximately $362.0 million. We expect to incur onal operating losses and expect cumulative losses to increase as our research and development, nical, clinical, manufacturing and marketing efforts expand. If we are unable to achieve and then ain profitability, the market value of our common stock and our outstanding notes will decline.

need additional financing and cannot obtain it, we may not be able to develop or market our products.

e expect our research and development expenses to increase in connection with our ongoing activities. elieve that our existing cash, cash equivalents and short-term investments will be sufficient to enable us d our operating expenses, obligations under our financing arrangements and capital expenditure ements for at least the next 12 months. Our future capital requirements will depend on many factors, ing:

- the scope and results of our research, preclinical and clinical development activities;
- the timing of, and the costs involved in, obtaining regulatory approvals;
- our ability to establish and maintain collaborations, the financial terms of any collaborations and our ability to achieve pre-determined milestones in connection with such collaborations;
- the cost of commercialization activities, including product marketing, sales and distribution;
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other patent-related costs;
- the extent to which we acquire or invest in businesses, products and technologies.

our future capital requirements exceed our available funds, we will need to seek additional financing. We e unable to raise capital when needed or on attractive terms. If additional funds are not available, we

eed to delay clinical studies, curtail

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ions or obtain funds through collaborative arrangements that may require us to relinquish rights to some products or potential markets.

Related to Development and Commercialization of Product Candidates and Dependence on Third es

pend heavily on the success of our most advanced internal product candidate, AGI-1067 for osclerosis, which is in clinical development. If we are unable to commercialize this product candidate, perience significant delays in doing so, our business will be materially harmed.

GI-1067 is our lead compound. Our ability to generate product revenues will depend heavily on the ssful development and commercialization of this compound. The commercial success of AGI-1067 will d on several factors, including the following:

successful completion of clinical trials;

receipt of marketing approvals from the FDA and similar foreign regulatory authorities;

successfully preparing for, and sustaining, commercial manufacturing and distribution arrangements with third party manufacturers, including our collaborator, AstraZeneca;

commencing commercial sales of the product, in collaboration with AstraZeneca; and

acceptance of the product in the medical community and with third party payors.

GI-1067 could fail in clinical trials if we are unable to show that it is effective or if it causes unacceptable ffects in the patients we treated. While the plaque regression observed in the group treated with 1067 in the CART-2 trial exceeded that observed in the standard of care group numerically, the ence was not statistically significant. Moreover, the results of our Phase II clinical trials of AGI-1067 are cessarily indicative of the results we will obtain in our Phase III clinical trial of AGI-1067, particularly se the primary clinical endpoints of these trials are not the same. Failure in clinical trials of AGI-1067 have a material adverse effect on our ability to generate revenue or become profitable. If we are not ssful in commercializing AGI-1067, or are significantly delayed or limited in doing so, our business will terially harmed.

e substantially dependent on our collaboration with AstraZeneca for the development and ercialization of AGI-1067.

e have entered into a license and collaboration agreement with AstraZeneca to develop and ercialize AGI-1067. The development program is managed by us and AstraZeneca under joint opment and management committees. Under this collaboration, AstraZeneca will lead the marketing s in all markets throughout the world, while we will have the right to co-promote AGI-1067 with Zeneca in the United States.

r collaboration with AstraZeneca to develop AGI-1067 may ultimately not be successful. The success of ollaboration arrangement will depend heavily on the efforts and activities of our collaborator. In general, nnot control the amount and timing of resources that AstraZeneca may devote to our collaboration. If Zeneca fails to assist in the development and commercialization of AGI-1067, or if AstraZeneca s efforts t effective, our business may be negatively affected. Our collaboration with AstraZeneca may not ue or result in commercialized drugs. If we do not maintain a successful collaborative partnership with Zeneca for the co-development and commercialization of AGI-1067, we may be forced to focus our s internally to commercialize AGI-1067. This would require greater financial resources and would result ncurring greater expenses and may cause a delay in market penetration while we continue to build our ommercial operation or seek alternative collaborative partners.

traZeneca has the right to terminate the agreement at its election upon the occurrence of certain ions. In particular, AstraZeneca may terminate the agreement: (1) upon 90 days prior written notice at me during the 45 day period following the release of the final ARISE results; (2) at any time in the

y period following receipt of a letter from the FDA stating either that: (a) the FDA will not approve the ation, or (b) it will only approve the application if specific conditions are met, and such conditions make onably likely that (i) approval of AGI-1067 will occur more than 24 months following the receipt of the etter, or (ii)

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opment costs will exceed a specified amount (unless we agree to pay any amount in excess of the ied amount); (3) if the FDA requires information or data from additional studies not contemplated in the al license agreement, when the added cost to AstraZeneca of complying with the FDA requirements is nably likely to exceed a specified amount (unless we agree to pay any amounts in excess of the specified nt); and (4) for any reason at any time during the one-year period following the third anniversary of t of FDA approval, upon giving us 365 days written notice at any time during that one-year period.

do not successfully develop our other product candidates, we will have limited ability to generate ue.

ner than AGI-1067, all of our other product candidates are in early stages of development, and only one product candidate has undergone Phase I clinical trials. Our product candidates are subject to the risks of e inherent in developing drug products based on new technologies. We do not expect any of our potential ct candidates, including AGI-1067, to be commercially available until at least 2008. Our drug discovery s may not produce any other proprietary product candidates. Our failure to develop product candidates mit our ability to generate additional revenue.

fail to demonstrate adequately the safety and efficacy of a product candidate, we will not be able to ercialize that product candidate.

oduct candidates we develop, alone or with others, may not prove safe and effective in clinical trials and ot meet all of the applicable regulatory requirements needed to receive regulatory approval. If we fail to ately demonstrate safety and efficacy for any product candidate, we will not be able to commercialize roduct candidate. Our failure to commercialize a product candidate will materially adversely affect our ue opportunities. We will need to conduct significant research, preclinical testing and clinical trials e we can file product approval applications with the FDA and similar regulatory authorities in other ries. Preclinical testing and clinical trials are long, expensive and uncertain processes. We may spend l years completing our testing for any particular product candidate. Failure can occur at any stage. e FDA or we may suspend our clinical trials at any time if either of us believes that we are exposing the cts participating in these trials to unacceptable health risks. The FDA or institutional review boards at the al institutions and healthcare facilities where we sponsor clinical trials may suspend any trial nitely if they find deficiencies in the conduct of these trials. The FDA and these institutional review s have authority to oversee our clinical trials, and the FDA may require large numbers of test subjects. In on, we must manufacture the product candidates that we use in our clinical trials under the FDA s Good facturing Practices.

en if we achieve positive results in early clinical trials, these results do not necessarily predict final s. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced al trials, even after achieving positive results in earlier trials. Negative or inconclusive results or adverse al events during a clinical trial could cause the FDA or us to terminate a clinical trial or require that we it.

addition, even if we receive approval for commercial sale of any of our product candidates, after use in reasing number of patients, our products could show side effect profiles that limit their usefulness or e their withdrawal although the drugs did not show the side effect profile in Phase I through Phase III al trials.

ay not be successful in establishing collaborations for product candidates we may seek to ercialize, which could adversely affect our ability to discover, develop and commercialize products.

key element of our business strategy is to collaborate with third parties, particularly leading naceutical companies, to develop and commercialize some of our product candidates. We expect to seek orations for the development and commercialization of product candidates in the future. The timing and of any collaboration will depend on the evaluation by prospective collaborators of the trial results and aspects of the drug s safety and efficacy profile. If we are unable to reach agreements with suitable orators for any product candidate, we would be forced to fund the entire development and ercialization of such product candidates, and we may not have the resources to do so. If resource

aints require us to enter into a collaboration early in the development of a product candidate, we may be
to accept a more limited share of any revenues this product may eventually generate. We face
icant competition in seeking appropriate collaborators. Moreover, these collaboration arrangements are
ex and time-consuming to negotiate and document. We may not be successful in our efforts to

ish collaborations or other alternative arrangements for any product candidate. Even if we are successful ablishing collaborations, we may not be able to ensure fulfillment by collaborators of their obligations or pectations.

lition to our collaboration with AstraZeneca, we expect to depend significantly on collaborations with parties to develop and commercialize some of our product candidates. If a potential collaborator were nge its strategy or the focus of its development and commercialization efforts with respect to our onship, the success of our product candidates and our operations could be adversely affected.

addition to our license and collaborative agreements with AstraZeneca to develop and commercialize 1067, we have entered into and renewed a collaboration agreement with Astellas to develop AGI-1096 in nical testing and early-stage clinical trials and intend to pursue additional collaborations in the future arge pharmaceutical companies to commercialize other products that we develop to target patient or cian populations in broad markets. Our existing collaborations and any other collaboration that we may ish may not be successful. The success of any collaboration arrangement will depend heavily on the s and activities of our collaborators. Collaborators will likely have significant discretion in determining forts and resources that they will apply to these collaborations. The risks that we anticipate being subject ollaborations include:

- a collaborator may develop and commercialize, either alone or with others, products and services that are similar to or competitive with the products that are the subject of the collaboration with us;

- a collaborator may change the focus of its development and commercialization efforts. Pharmaceutical and biotechnology companies historically have re-evaluated their priorities from time to time, including following mergers and consolidations, which have been common in recent years in these industries;

- the ability of our product candidates and products to reach their potential could be limited if our collaborators decrease or fail to increase spending relating to these products;

- a collaborator may terminate a collaboration;

- a collaborator may fail to achieve or remain in regulatory compliance; and

- a collaborator may fail to maintain or defend our intellectual property rights.

e termination of any collaboration that we may establish might adversely affect the development of the d product candidates and our ability to derive revenue from them. Collaborations with pharmaceutical anies and other third parties often are terminated or allowed to expire by the other party or by us. Any terminations or expirations would adversely affect us financially and could harm our business tion. In that event, we might be required to devote additional resources to the product or product date, seek a new collaborator or abandon the product or product candidate, any of which could have an se effect on our business.

parties failure to synthesize and manufacture our product candidates to our specifications could our clinical trials or hinder our commercialization prospects.

e currently have no manufacturing facilities to synthesize or manufacture our product candidates, nor do end to develop these capabilities in the near future. In December 2005, we entered into a joint license ollaboration agreement, with AstraZeneca, which is responsible for all of the AGI-1067 manufacturing, ging and labeling activities. Our reliance on AstraZeneca and on other third parties for these services es us to various risks that could delay our clinical trials or hinder our commercialization prospects. risks include the following:

A finding that a third party did not comply with applicable governmental regulations.

Manufacturers of pharmaceutical products are subject to continual review and periodic inspections by regulatory agencies. Our present or future manufacturers may not be able to

comply with the FDA s current Good Manufacturing Practices regulations and other FDA regulatory requirements or similar regulatory requirements outside the United States. Failure of one of our third party manufacturers to comply with applicable regulatory requirements, whether or not related to our product candidates, could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of

our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our product candidates and products.

A failure to synthesize and manufacture our product candidates in accordance with our product specifications. We need to maintain a very low maximal amount of one of the starting materials used in the manufacture of AGI-1067. The starting material, probucol, was prescribed by physicians as a cholesterol-lowering agent until its manufacturer withdrew the drug from the market for efficacy reasons. AstraZeneca is responsible for supplying all of the manufacturing, packaging and labeling under our joint licensing and collaboration agreement. A failure by AstraZeneca or other third party manufacturers to maintain an acceptable level of probucol in the manufacture of AGI-1067 may result in chronic dosing of probucol, which is associated with the occurrence of a rare side effect.

A failure to deliver product candidates in sufficient quantities or in a timely manner. Any failure by our third party manufacturers to supply our requirements for clinical trial materials or commercial product, or to supply these materials in a timely manner, could jeopardize the initiation or completion of clinical trials or could have a material adverse effect on our ability to commercialize any approved products and thereby generate revenue.

Termination or nonrenewal of an agreement by a third party, including our collaborator AstraZeneca, based on its own business priorities, at a time that is costly or inconvenient to us. Our product candidates and any products that we successfully develop may compete with product candidates and products of others for access to the third party s manufacturing facilities. In addition, because we do not have any internal manufacturing capabilities, the termination of a supply or manufacturing agreement could severely impair our ability to manufacture our products and could have a material adverse effect on our financial condition and operating results.

ommercial success of any products that we may develop will depend on the degree of market tance by physicians, patients, healthcare payors and others in the medical community.

y products that we bring to the market may not gain market acceptance by physicians, patients, care payors and others in the medical community. If these products do not achieve an adequate level of tance, we may not generate material product revenues and we may not become profitable. The degree of t acceptance of our product candidates, if approved for commercial sale, will depend on a number of s, including:

the prevalence and severity of any side effects;

the efficacy and potential advantages over alternative treatments;

the ability to offer our product candidates for sale at competitive prices;

relative convenience and ease of administration;

the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;

the strength of marketing and distribution support; and

sufficient third party coverage or reimbursement.

competitors develop and market products that are more effective, have fewer side effects or are less sive than our current or future product candidates, we may have limited commercial opportunities.

e development and commercialization of new drugs is highly competitive. Our competitors include large
naceutical and more established biotechnology companies. Moreover, there are approved products on the
t for many of the diseases for which we are developing drugs. In many cases, these products have well
n brand names, are distributed by large pharmaceutical companies and have achieved widespread
tance among physicians and patients. Our competitors have significant resources and expertise in
ch and development, manufacturing, testing, obtaining regulatory approvals and marketing. Potential
etitors also include academic institutions, government agencies, and other public and private research
izations that conduct research,

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atent protection and establish collaborative arrangements for research, development, manufacturing and ercialization. Any of these competitors could develop technologies or products that would render our ologies or product candidates obsolete or non-competitive, which could adversely affect our revenue ial. These third parties also compete with us in recruiting and retaining qualified scientific and gement personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in ing technologies complementary to or necessary for our programs or advantageous to our business.

ve not previously sold, marketed or distributed any products and may not be able to successfully ercialize AGI-1067, or other drug candidates.

e have not previously sold, marketed or distributed any products and currently have no sales or ution capabilities. As our drug candidates progress towards ultimate commercialization, we will need to op our sales and marketing capabilities and enter into agreements with third parties to perform these ons. Pursuant to our joint licensing and collaboration agreement, AstraZeneca will be responsible for the ution and marketing of AGI-1067 in all markets throughout the world. In addition, AstraZeneca has l to fund a sales force of up to 125 people for three years. Prior to and during this three-year period, we e unable to successfully hire and retain key sales and marketing personnel that we need to effectively ge and carry out the commercialization of AGI-1067, or any other drug candidates. Even if we manage to nd retain necessary personnel, we may be unable to implement our sales, marketing and distribution gies effectively or profitably. We have no experience in developing, training or managing a sales force ill incur substantial additional expenses in doing so. The cost of establishing and maintaining a sales may exceed its cost effectiveness. In addition, we will compete with many companies that currently have ive and well-funded marketing and sales operations. Lastly, in the event that AGI-1067 or another of ug candidates is not approved for marketing by the FDA, or if AstraZeneca terminates our joint ing and collaboration agreement, we may have incurred expenses for the buildup of a sales force that we ot be able to recover, and may have difficulty continuing to maintain the sales force and marketing tructure funded by AstraZeneca.

are unable to obtain adequate coverage and reimbursement from third party payors for any products e may develop or acceptable prices for those products, our revenues and prospects for profitability uffer.

ost patients rely on government payors, such as Medicare or Medicaid, private health insurers or other party payors to pay for their medical needs, including any pharmaceutical products that we or any orators may bring to the market. If government or other third party payors do not provide adequate age and reimbursement for any products that we might develop, our revenues and prospects for ability will suffer. In December 2003, the Congress enacted the Medicare Prescription Drug and rnization Act, which significantly expanded Medicare coverage of prescription drugs by establishing care Part D, a voluntary, limited outpatient prescription drug program, which went into effect on ry 1, 2006. The advent of the Part D program might increase coverage for Medicare beneficiaries and y increase demand for our products, however, Part D prescription drug plans will have substantial ge in negotiating the payments for drugs furnished through the program. This might result in lower ents for products that are covered through the Part D program than we might otherwise obtain from e plans. Price concessions that we provide to Part D plans could adversely impact our pricing with Medicare third party payors.

primary trend in the United States healthcare industry is toward cost containment. Third party payors singly are challenging the prices charged for medical products and services, and many third party payors coverage and reimbursement for newly-approved healthcare products. In particular, third party payors limit the indications for which they will provide coverage for products that we develop or provide age barriers such as requiring prior approval from the health plan based on a patient s diagnosis and a cian s letter of medical necessity. Cost control initiatives by payors could decrease the price we might ish for products that we might develop, which could result in lower product revenues to us.

addition, in some foreign countries, particularly the countries of the European Union, the pricing of
iption pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with
nmental authorities can take six to 12 months or longer after the receipt of regulatory marketing approval
product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct
cal trial that compares the cost effectiveness of our product candidates or products to other available
ies. The conduct of such a clinical trial could be expensive and result in delays in commercialization of
oducts.

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

e testing and marketing of medicinal products entail an inherent risk of product liability. Even if we m careful clinical development, we cannot predict the full range of adverse consequences that might be ated with the use, misuse, or abuse of our products. We also must remain highly vigilant to emerging nation and trends that may concern our products. Clinical trial subjects, consumers, healthcare providers rmaceutical companies or others selling our future products could bring product liability claims against we cannot successfully defend ourselves against claims that our product candidates or products caused es, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may in:

- decreased demand for any product candidates or products that we may develop;
- injury to our reputation;
- withdrawal of clinical trial participants;
- costs to defend the related litigation;
- substantial monetary awards to trial participants or patients;
- loss of revenue; and
- the inability to commercialize any products that we may develop.

ay not be able to acquire or maintain insurance coverage at a reasonable cost or in sufficient amounts to t us from this kind of liability.

Related to Our Intellectual Property

ailure to protect adequately or enforce our intellectual property rights or secure rights to third party ts could materially adversely affect our proprietary position in the marketplace or prevent the ercialization of our products.

r success will depend in large part on our ability to obtain and maintain protection in the United States her countries for the intellectual property covering or incorporated into our technologies and products. atents and patent applications in our patent portfolio are either owned by us or licensed to us. Our ability tect our product candidates from unauthorized or infringing use by third parties depends substantially on ility to obtain and maintain valid and enforceable patents. Due to evolving legal standards relating to the ability, validity and enforceability of patents covering pharmaceutical inventions and the scope of s made under these patents, our ability to obtain and enforce patents is uncertain and involves complex and factual questions for which important legal principles are unresolved.

e may not be able to obtain patent rights on products, treatment methods or manufacturing processes that y develop or to which we may obtain license or other rights. Even if we do obtain patents, rights under sued patents may not provide us with sufficient protection for our product candidates or provide ient protection to afford us a commercial advantage against our competitors or their competitive products cesses. It is possible that no patents will be issued from any pending or future patent applications owned or licensed to us. Others may challenge, seek to invalidate, infringe or circumvent any patents we own or e. Alternatively, we may in the future be required to initiate litigation against third parties to enforce our ctual property rights. The cost of this litigation could be substantial and our efforts could be cessful. Changes in either patent laws or in interpretations of patent laws in the United States and other ries may diminish the value of our intellectual property or narrow the scope of our patent protection.

r patents also may not afford us protection against competitors with similar technology. We may not dentified all patents, published applications or published literature that affect our business either by ng our ability to commercialize our

ct candidates, by preventing the patentability of our drugs to us or our licensors or by covering the same ilar technologies that may affect our ability to market our product candidates. For example, patent ations in the United States are maintained in confidence for up to 18 months after their filing. In some however, patent applications remain confidential in the United States Patent and Trademark Office for tire time prior to issuance as a United States patent. Patent applications filed in countries outside the d States are not typically published until at least 18 months from their first filing date. Similarly, ation of discoveries in the scientific or patent literature often lags behind actual discoveries. Therefore, our licensors might not have been the first to invent, or the first to file, patent applications on our drug lates or for their use. The laws of some foreign jurisdictions do not protect intellectual property rights to me extent as in the United States and many companies have encountered significant difficulties in ting and defending these rights in foreign jurisdictions. If we encounter such difficulties in protecting or herwise precluded from effectively protecting our intellectual property rights in foreign jurisdictions, our ess prospects could be substantially harmed.

nfringe or are alleged to infringe intellectual property rights of third parties, it will adversely affect usiness.

r research, development and commercialization activities, as well as any product candidates or products ng from these activities, may infringe or be claimed to infringe patents or patent applications under we do not hold licenses or other rights. Third parties may own or control these patents and patent ations in the United States and abroad. These third parties could bring claims against us or our orators that would cause us to incur substantial expenses and, if successful against us, could cause us to ubstantial damages. Further, if a patent infringement suit were brought against us or our collaborators, we y could be forced to stop or delay research, development, manufacturing or sales of the product or ct candidate that is the subject of the suit.

a result of patent infringement claims, or in order to avoid potential claims, we or our collaborators may e or be required to seek a license from the third party and be required to pay license fees or royalties or These licenses may not be available on acceptable terms, or at all. Even if we or our collaborators were o obtain a license, the rights may be nonexclusive, which could result in our competitors gaining access same intellectual property. Ultimately, we could be prevented from commercializing a product, or be to cease some aspect of our business operations, if, as a result of actual or threatened patent gement claims, we or our collaborators are unable to enter into licenses on acceptable terms. This could our business significantly.

ere has been substantial litigation and other proceedings regarding patent and other intellectual property in the pharmaceutical and biotechnology industries. In addition to infringement claims against us, we ecome a party to other patent litigation and other proceedings, including interference proceedings ed by the United States Patent and Trademark Office and opposition proceedings in the European Patent , regarding intellectual property rights with respect to our products and technology. The cost to us of atent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our etitors may be able to sustain the costs of such litigation or proceedings more effectively than we can se of their substantially greater financial resources. Uncertainties resulting from the initiation and uation of patent litigation or other proceedings could have a material adverse effect on our ability to ete in the marketplace. Patent litigation and other proceedings may also absorb significant management

fail to comply with our obligations in our intellectual property licenses with third parties, we could cense rights that are important to our business.

r commercial success will also depend on our ability to develop, manufacture, use, sell and offer to sell oduct candidates and proposed product candidates without breaching our agreements with our patent ors. We are a party to a number of license agreements, including exclusive licenses to technologies from , covering aspects of our v-protectant® technology, and the National Jewish Medical and Research , covering aspects of our MEKK technology platform. We expect to enter into additional licenses in the

. Our exclusive license with Emory requires us to take steps to commercialize the licensed technology in ly manner. If we fail to meet these obligations, Emory can convert our exclusive license to a xclusive license, can grant others non-exclusive rights in the licensed technology or can require us to ense aspects of the licensed technology. Our license agreement with National Jewish requires us to op the licensed technology in a timely manner. If we fail to meet these obligations, some or all of the ed technology may revert to National Jewish. Our existing licenses impose, and we expect future es will impose, various diligence, milestone payments, royalty, insurance and other obligations on us. If l to comply with these obligations, the licensor may have the right to terminate the license, in which we might not be able to market any product that is covered by the licensed patents.

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are unable to protect the confidentiality of our proprietary information and know-how, the value of chnology and products could be adversely affected.

addition to patented technology, we rely on trade secrets, proprietary know-how and technological ces, which we seek to protect through agreements with our collaborators, employees and consultants. persons and entities could breach our agreements, for which breaches we may not have adequate ies. In addition, others could become aware of our trade secrets or proprietary know-how through endent discovery or otherwise. If we are unable to protect the confidentiality of our proprietary nation and know-how, competitors may be able to use this information to develop products that compete ur products, which could adversely impact our business.

Related to Regulatory Approval of Our Product Candidates

se we cannot predict whether or when we will obtain regulatory approval to commercialize our ct candidates, we cannot predict the timing of any future revenue from these product candidates.

e cannot commercialize any of our product candidates, including AGI-1067 and AGI-1096, until the priate regulatory authorities have reviewed and approved the applications for the product candidates. The tory agencies may not complete their review processes in a timely manner and we may not obtain tory approval for any product candidate we or our collaborators develop. Satisfaction of regulatory ements typically takes many years, if approval is obtained at all, is dependent upon the type, complexity ovelty of the product and requires the expenditure of substantial resources. Regulatory approval sses outside the United States include all of the risks associated with the FDA approval process. In on, we may experience delays or rejections based upon additional government regulation from future ation or administrative action or changes in FDA policy during the period of product development, al trials and FDA regulatory review. The FDA has substantial discretion in the approval process and may to accept any application or may decide that our data is insufficient for approval and require additional nical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical inical testing could delay, limit or prevent regulatory approval of a product candidate.

ay experience delays in our clinical trials that could adversely affect our financial results and our ercial prospects.

e do not know whether planned clinical trials will begin on time or whether we will complete any of our al trials on schedule or at all. Product development costs to us and our collaborators will increase if we delays in testing or approvals or if we need to perform more or larger clinical trials than planned. ficant delays may adversely affect our financial results and the commercial prospects for our products, elay our ability to become profitable.

e rely heavily on independent clinical investigators, contract research organizations and other third party e providers for successful execution of our clinical trials, but do not control many aspects of their ies. We are responsible for ensuring that each of our clinical trials is conducted in accordance with the al investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with ards, commonly referred to as Good Clinical Practices, for conducting and recording and reporting the s of clinical trials to assure that data and reported results are credible and accurate and that the rights, ity and confidentiality of trial participants are protected. Our reliance on third parties that we do not ol does not relieve us of these responsibilities and requirements. Third parties may not complete activities nedule, or may not conduct our clinical trials in accordance with regulatory requirements or our stated cols. The failure of these third parties to carry out their obligations could delay or prevent the opment, approval and commercialization of our product candidates.

re to obtain regulatory approval in international jurisdictions would prevent us from marketing our cts abroad.

e intend to have our products marketed outside the United States. In order to market our products in the ean Union and many other foreign jurisdictions, we must obtain separate regulatory approvals and y with numerous and varying regulatory requirements. AstraZeneca will have responsibility to obtain tory approvals outside the United States with respect to AGI-1067, and we will depend on AstraZeneca

ain these approvals. The approval procedure varies among countries and can involve additional testing. me required to obtain approval may differ from that required to obtain FDA approval. The foreign tory approval process may include all of the risks associated with obtaining FDA approval. We may not foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval ulatory authorities in other countries or

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ctions, and approval by one foreign regulatory authority does not ensure approval by regulatory rities in other foreign countries or jurisdictions or by the FDA. We and any future collaborators may not e to file for regulatory approvals and may not receive necessary approvals to commercialize our cts in any market.

do not comply with applicable regulatory requirements in the manufacture and distribution of our cts, we may incur penalties that may inhibit our ability to commercialize our products and adversely our revenue.

r failure to comply with applicable FDA or other regulatory requirements, including manufacturing, y control, labeling, safety surveillance, promoting and reporting, may result in criminal prosecution, civil ies, recall or seizure of our products, total or partial suspension of production or an injunction, as well as regulatory action against our potential products or us. Discovery of previously unknown problems with a ct, supplier, manufacturer or facility may result in restrictions on the sale of our products, including a rawal of such products from the market.

if the FDA approves our product candidates, the approval will be limited to those indications and tions for which we are able to show clinical safety and efficacy.

y regulatory approval that we may receive for our current or future product candidates will be limited to diseases and indications for which these product candidates are clinically demonstrated to be safe and ve. In addition to the FDA approval required for new formulations, any new indication to an approved ct also requires FDA approval. If we are not able to obtain FDA approval for a broad range of tions for our product candidates, our ability to effectively market and sell our product candidates may be y reduced and our business will be adversely affected.

Related to Our Operations

ailure to attract, retain and motivate skilled personnel and cultivate key academic collaborations could ially adversely affect our research and development efforts.

e are a small company with approximately 127 full-time employees. If we are unable to continue to , retain and motivate highly qualified management and scientific personnel and to develop and maintain tant relationships with leading academic institutions and scientists, we may not be able to achieve our ch and development objectives. Competition for personnel and academic collaborations is intense. We ntered into employment agreements with each of our executive officers. These employment agreements rminable by the employee on short notice. Loss of the services of any of these officers or of our key ific personnel could adversely affect the progress of our research and development programs. All of our employees are at will employees. We do not carry key person insurance on any employee.

utcome of informal inquiries by the SEC and NASD regarding our announcement of interim results he CART-2 clinical trial for AGI-1067 and related trading in our common stock is uncertain.

January 2005, we were contacted by the staff of the SEC and the NASD regarding informal inquiries re conducting related to our September 27, 2004 announcement of interim results from the CART-2 l trial for AGI-1067 and trading in our common stock surrounding that announcement. The SEC staff s states that its inquiry should not be construed as an expression of opinion on the part of the SEC or its hat any violations of law have occurred. The SEC and NASD staff have requested that we voluntarily le them with documents and other information relating to that announcement. We have cooperated fully hese requests. Based on our review of the facts as to the September 27, 2004 announcement and trading common stock surrounding that announcement, we do not believe that we or any of our officers or ors have violated any laws related to these inquiries. However, we cannot predict the outcome of these ies, whether the SEC or NASD will undertake any form of investigation or proceeding relating to us or fficers or directors or when these matters might be resolved.

ctivities involve the use of hazardous materials, which subject us to regulation, related costs and and potential liabilities.

r research and development involves the controlled use of hazardous materials, chemicals and various ctive compounds. Although we believe that our safety procedures for handling and disposing of these

ials comply with the standards prescribed by

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nd federal regulations, the risk of accidental contamination or injury from these materials cannot be ated. If an accident occurs, we could be held liable for resulting damages, which could be substantial. e also subject to numerous environmental, health and workplace safety laws and regulations, including governing laboratory procedures, exposure to blood-borne pathogens and the handling of biohazardous als. Additional federal, state and local laws and regulations affecting our operations may be adopted in ture. We may incur substantial costs to comply with, and substantial fines or penalties if we violate, any se laws or regulations.

Related to our Common Stock and Indebtedness

r stock price has been and may continue to be volatile.

e market price of our common stock, and the market prices for securities of pharmaceutical and hnology companies in general, have been highly volatile and may continue to be highly volatile in the . During the period from January 1, 2006 to March 2, 2007, the closing sale price of our common stock NASDAQ National Market ranged from a low of $9.25 per share to a high of $20.67 per share. The ing factors, in addition to other risk factors described in this report, may have a significant impact on arket price of our common stock:

- results of clinical trials of our product candidates, particularly AGI-1067, and those of our competitors;
- whether we maintain our collaboration agreement with AstraZeneca;
- developments concerning any research and development, manufacturing and marketing collaborations, including whether and when we achieve milestones;
- announcements of technological innovations or new commercial products by our competitors or us;
- developments concerning proprietary rights, including patents;
- the addition or termination of research programs or funding support;
- publicity regarding actual or potential results relating to medicinal products under development by our competitors or us;
- regulatory developments in the United States and other countries;
- litigation;
- economic and other external factors, including disasters or crises;
- period-to-period fluctuations in financial results; and
- analysts recommendations.

he past, following periods of volatility in the market price of a company s securities, securities class litigation has often been instituted. Similar lawsuits may be filed against us and our executive officers rectors. Litigation can be costly, time consuming and disruptive to normal business operations. The se of these lawsuits could also result in diversion of our management s time and attention away from ess operations, which could harm our business.

xisting indebtedness and any future indebtedness we incur exposes us to risks that could adversely our business, operating results and financial condition.

of December 31, 2006, we had $286.0 million of total indebtedness outstanding. We may also incur
onal long-term indebtedness or obtain additional working capital lines of credit to meet future financing
Our indebtedness could have significant negative consequences for our business, operating results and
ial condition, including:

increasing our vulnerability to adverse economic and industry conditions;

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limiting our ability to obtain additional financing;

requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the amount of our cash flow available for other purposes;

limiting our flexibility in planning for, or reacting to, changes in our business; and

placing us at a possible competitive disadvantage with less leveraged competitors and competitors that may have better access to capital resources.

ve do not achieve a significant increase in revenues, we could have difficulty making required payments r outstanding convertible notes and any indebtedness that we may incur in the future. During each of the ve years, we had no earnings to cover our fixed charges. If we are unable to generate sufficient cash flow erwise obtain funds necessary to make required payments, or if we fail to comply with the various ements of our convertible notes or any other indebtedness which we may incur in the future, we would default, which would permit the holders of the notes and that other indebtedness to accelerate the ity of the notes and that other indebtedness and could cause defaults under the notes and that other edness. Any default under our convertible notes or any indebtedness which we may incur in the future have a material adverse effect on our business, operating results and financial condition.

rsion of our convertible notes will dilute the ownership interest of existing shareholders and could sely affect the market price of our common stock.

e conversion of some or all of the 1.5% convertible notes due 2012 or the 4.5% convertible notes due will dilute the ownership interests of existing shareholders. In January 2006, holders converted million of the 4.5% convertible notes into 1,085,000 shares of our common stock. Any sales in the market of the common stock issuable upon such conversion could adversely affect prevailing market of our common stock. In addition, the existence of the notes may encourage short selling by market pants because the conversion of the notes could depress the price of our common stock.

hareholder rights plan and anti-takeover provisions in our charter documents may make an sition of us, which may benefit our shareholders, more difficult.

r shareholder rights plan and provisions of our articles of incorporation and bylaws could make it more lt for a third party to acquire us. These documents include provisions that:

allow our shareholders the right to acquire common stock from us at discounted prices in the event a person acquires 15% or more of our common stock or announces an attempt to do so without our board of directors prior consent;

authorize the issuance of blank check preferred stock by our board of directors without shareholder approval, which would increase the number of outstanding shares and could thwart a takeover attempt;

limit who may call a special meeting of shareholders;

require shareholder action without a meeting by unanimous written consent;

establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at shareholder meetings;

establish a staggered board of directors whose members can only be dismissed for cause;

adopt the fair price requirements and rules regarding business combinations with interested shareholders set forth in Article 11, Parts 2 and 3 of the Georgia Business Corporation Code; and

require approval by the holders of at least 75% of the outstanding common stock to amend any of the foregoing provisions.

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ive largest institutional shareholders collectively own more than 50% of our outstanding shares, could permit these shareholders to exercise considerable influence over us.

rtain of our existing institutional shareholders collectively own more than 50% of the outstanding shares common stock. By reason of such holdings, these shareholders acting as a group could exercise icant influence over our affairs and policies, including the election of our board of directors and matters tted to a vote of our shareholders such as mergers and significant asset sales, and their interests might consistent with the interests of other shareholders.

1B. ***Unresolved SEC Staff Comments***

ne.

2. ***Properties***

r scientific and administration facility encompasses approximately 50,000 square feet in Alpharetta, ia. We lease our facility pursuant to a long-term lease agreement that expires in 2009, and our remaining gate commitment under this long-term, non-cancelable lease is approximately $2.6 million. This lease e extended at our option to 2019.

November 2001, we leased a facility in Norcross, Georgia encompassing approximately 5,800 square Ve lease this laboratory facility pursuant to a long-term lease agreement that, as amended, expires in and our remaining aggregate commitment under this long-term, non-cancelable lease is approximately 000. We have the option to renew this lease under mutually agreeable terms.

3.*Legal Proceedings*

ne.

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

ne.

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PART II

5. ***Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of y Securities***

mon Stock Information

r common stock is traded on the Nasdaq National Market under the symbol AGIX. The following table orth the range of high and low reported last sale price per share of our common stock as quoted on the q National Market for each period indicated.

	Common Stock	
	High	**Low**
ended December 31, 2006		
quarter	$20.67	$15.00
d quarter	16.18	12.53
quarter	14.17	12.23
quarter	15.21	9.91
ended December 31, 2005		
quarter	$20.61	$13.00
d quarter	16.87	10.66
quarter	18.25	15.76
quarter	21.14	14.42

March 2, 2007, there were approximately 16,200 holders of our common stock. This number includes cial owners of our common stock whose shares are held in the names of various dealers, clearing ies, banks, brokers and other fiduciaries.

end Policy

e have never declared or paid any dividends on our capital stock. We currently intend to retain all of our earnings, if any, to finance our operations and do not anticipate paying any cash dividends on our l stock in the foreseeable future.

ities Authorized for Issuance Under Equity Compensation Plans

e have set forth information relating to securities authorized for issuance under equity compensation under the caption Equity Compensation Plan Information in our proxy statement for our 2007 annual ng of shareholders to be held on May 17, 2007. We are incorporating this information by reference in orm 10-K.

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6. *Selected Financial Data*

e selected financial data set forth below should be read in conjunction with our financial statements and ated notes and Management s Discussion and Analysis of Financial Condition and Results of Operations, ed in this annual report. The historical results are not necessarily indicative of the operating results to be ted in the future.

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
ment of ations Data:					
ues:					
se fees	$ 22,916,667	$	$	$	$
rch and opment	8,758,178				
revenues	31,674,845				
ting expenses:					
rch and opment	82,855,340	71,278,945	59,235,833	46,660,960	23,746,127
al and istrative	13,373,112	9,050,290	6,607,506	5,930,675	5,139,000
operating ses	96,228,452	80,329,235	65,843,339	52,591,635	28,885,127
ting loss	(64,553,607)	(80,329,235)	(65,843,339)	(52,591,635)	(28,885,127)
st and other e	9,175,817	6,691,965	1,447,001	1,258,216	962,040
st expense	(8,423,346)	(8,917,057)	(5,192,894)	(1,954,402)	(42,420)
expense	(3,521,236)				
ss	$ (67,322,372)	$ (82,554,327)	$ (69,589,232)	$ (53,287,821)	$ (27,965,507)
and diluted net er share	$ (1.71)	$ (2.19)	$ (1.88)	$ (1.49)	$ (1.00)
s used in uting basic and d net loss per	39,383,376	37,774,203	37,070,235	35,770,994	27,978,705

llowing table contains a summary of our balance sheet data as of December 31:

	2006	**2005**	**2004**	**2003**	**2002**
ce Sheet					

cash alents and term ments	$ 151,810,939	$ 182,504,523	$ 66,924,015	$ 131,583,928	$ 34,671,131
ng capital	118,786,367	173,164,668	59,719,811	124,848,687	30,009,013
assets	178,339,664	197,497,527	74,462,327	138,836,746	37,952,044
term debt	286,000,000	300,053,796	100,000,000	100,083,622	572,492
mulated deficit	(361,997,246)	(294,674,874)	(212,120,547)	(142,531,315)	(89,243,494)
shareholders it) equity	(153,987,649)	(115,436,216)	(35,942,382)	30,377,006	32,493,713

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

e following discussion should be read in conjunction with our financial statements and related notes led in this annual report. In this report, AtheroGenics, we, us and our refer to AtheroGenics,

is annual report contains forward-looking statements made pursuant to the safe harbor provisions of the e Securities Litigation Reform Act of 1995. These statements are subject to certain factors, risks and tainties that may cause actual results, events and performances to differ materially from those referred uch statements. These risks include statements which address operating performance, events or opments that we expect or anticipate will occur in the future, such as projections about our future results rations or financial condition, research, development and commercialization of our product candidates, tations regarding the completion of our clinical trials and the related release of results, anticipated in our business, and other risks that could cause actual results to differ materially. You should carefully der these risks, which are discussed in this annual report, including, without limitation, in the sections d Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of tions, and in AtheroGenics SEC filings.

view

heroGenics is a research-based pharmaceutical company focused on the discovery, development and ercialization of novel drugs for the treatment of chronic inflammatory diseases, including coronary heart e, organ transplant rejection, rheumatoid arthritis and asthma. We have developed a proprietary vascular tant, or v-protectant®, technology platform to discover drugs to treat these types of diseases. Based on protectant® platform, we have two drug development programs in clinical trials and are pursuing a er of other preclinical programs.

GI-1067, our first candidate, is our v-protectant® that is most advanced in clinical development. 1067 is designed to benefit patients with coronary heart disease, or CHD, which is atherosclerosis of the vessels of the heart. We are currently evaluating AGI-1067 in the Phase III clinical trial called ARISE essive **R**eduction of **I**nflammation **S**tops **E**vents) as an oral therapy for the treatment of atherosclerosis. ompleted the ARISE trial in 2006 and expect to announce the results in early 2007. Assuming positive s, we plan to file an NDA with the FDA as soon as possible thereafter. In December 2005, we announced nse and collaboration agreement with AstraZeneca for the global development and commercialization of 1067. Under the terms of the agreement, we received an upfront nonrefundable license fee of $50 million ubject to the achievement of specific milestones, including a successful outcome in ARISE, we will be le for development and regulatory milestones of up to an aggregate of $300 million. The agreement also les for progressively demanding sales performance related milestones of up to an additional million in the aggregate. In addition, we will also receive royalties on product sales. AstraZeneca has the o terminate the license and collaboration agreement at specified periods as further described above in . Business Collaborations.

GI-1096, our second candidate, is a novel antioxidant and selective anti-inflammatory agent that is being oped to address the accelerated inflammation of grafted blood vessels, known as transplant arteritis, on in chronic organ transplant rejection. We are working with Astellas Pharma Inc. to further develop 1096 in preclinical and early-stage clinical trials.

e previously were developing AGIX-4207, a v-protectant® candidate for the treatment of rheumatoid is. Based on our findings, however, we have discontinued clinical development of AGIX-4207 for matoid arthritis in 2004. We continue to have an active program aimed at investigating other ectants® in rheumatoid arthritis and are working to select another candidate to move into formal nical development.

e have also identified additional potential v-protectant® candidates to treat other chronic inflammatory es, including asthma. We are evaluating these v-protectants® to determine lead drug candidates for al development. We plan to develop these compounds rapidly and may seek regulatory fast track status, ilable, to expedite development and commercialization.

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e following table provides information regarding our research and development expenses for our major ct candidates:

	Year ended December 31,		
	2006	2005	2004
external costs:			
1067	$ 53,136,660	$ 51,087,586	$ 38,005,867
-4207	62,770	124,224	2,142,083
ocated costs and other programs	29,655,910	20,067,135	19,087,883
research and development	$ 82,855,340	$ 71,278,945	$ 59,235,833

om inception, we have devoted the large majority of our research and development efforts and financial ces to support development of the AGI-1067 product candidate. We will retain responsibility for the ng ARISE clinical trial and for regulatory filings in the United States. AstraZeneca will have full nsibility for pre-commercialization activities involving AGI-1067 and will oversee all aspects of the ting, sales and distribution of AGI-1067 on a worldwide basis. AstraZeneca will also be responsible for n-U.S. regulatory filings. Spending for the AGI-1096 program in 2006, 2005 and 2004 was funded by llaborative development partner, Astellas.

e nature, timing and costs of the efforts to complete the successful development of any of our product dates are highly uncertain and subject to numerous risks, and therefore cannot be accurately estimated. risks include the rate of progress and costs of our clinical trials, clinical trial results, cost and timing of tory approval and establishing commercial manufacturing supplies. These risks and uncertainties, and ffect on our operations and financial position, are more fully described above in our risk factors under adings *Risks Related to Development and Commercialization of Our Product Candidates and ndence on Third Parties and Risks Related to Regulatory Approval of Our Product Candidates.*

e have not derived any commercial revenues from product sales. We expect to incur significant losses in years prior to deriving any such product revenue as we continue our research and development activities. ve funded our operations primarily through sales of equity and debt securities. We have incurred icant losses since we began operations and, as of December 31, 2006, had an accumulated deficit of 0 million. We cannot assure you that we will become profitable or receive any milestone-related ues under our agreement with AstraZeneca. We expect that losses will fluctuate from quarter to quarter at these fluctuations may be substantial. Our ability to achieve profitability depends upon our ability, or with others, to complete the successful development of our product candidates, to obtain required tory clearances and to manufacture and market our future products.

al Accounting Policies and Use of Estimates

e preparation of financial statements in conformity with U.S. generally accepted accounting principles es management to make estimates and assumptions and select accounting policies that affect the nts reported in our financial statements and the accompanying notes. Actual results could significantly from those estimates. We have identified the following policies and related estimates as critical to our ess operations and the understanding of our results of operations. A description of these critical nting policies and a discussion of the significant estimates and judgments associated with these policies t forth below. The impact of and any associated risks related to these policies on our business operations so discussed throughout Management s Discussion and Analysis of Financial Condition and Results of tions.

rch and Development Accrual

part of the process of preparing our financial statements, we are required to estimate expenses that we e we have incurred, but have not yet been billed for. This process involves identifying services and ies that have been performed by third party vendors on our behalf and estimating the level to which they

been performed and the associated cost incurred for such service as of each balance sheet date in our
ial statements. Examples of expenses for which we accrue include fees for professional services, such as
provided by certain clinical research organizations and investigators in conjunction with clinical trials,
es owed to contract manufacturers in conjunction with the manufacture of clinical trial materials. We
these estimates based upon progress of activities related to contractual obligations and also information
ed from vendors.

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ue Recognition

e recognize revenue in accordance with the SEC s Staff Accounting Bulletin (SAB) No. 101, Revenue gnition in Financial Statements, as amended by Staff Accounting Bulletin No. 104, Revenue gnition, (SAB 104). SAB 104 provides guidance in applying U.S. generally accepted accounting ples to revenue recognition issues, and specifically addresses revenue recognition for upfront, fundable fees received in connection with research collaboration agreements.

accordance with SAB 104, license fees, which are nonrefundable, are recognized when the related e agreements specify that no further efforts or obligations are required of us. In February 2006, we ed a $50.0 million nonrefundable license fee in connection with our license and collaboration agreement AstraZeneca. The upfront nonrefundable license payment will be recognized on a straight-line basis over month period that we estimate we are obligated to provide services to the licensee. In 2006, revenues approximately $22.9 million related to the amortization of the upfront license fee from AstraZeneca. ring the third quarter of 2006, AstraZeneca engaged AtheroGenics to perform FOCUS, a follow-up III clinical trial for patients who have completed ARISE. Revenues under the research and development ment pertaining to the FOCUS clinical trial are recognized in accordance with SAB 104 and Emerging Task Force (EITF) Issue No. 99-19, Reporting Gross Revenue as a Principal vs. Net as an Agent. ding to the criteria established by EITF Issue No. 99-19, we are the primary obligor of the agreement se we are responsible for the selection, negotiation, contracting and payment of the third party suppliers. ition, any liabilities resulting from the agreement are the responsibility of AtheroGenics. Research and opment revenues are recognized, on a gross basis, as activities are performed under the terms of the d agreement. Revenues that have not been invoiced are reflected as unbilled receivables as described in counts receivable note to the financial statements.

Based Compensation

fective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards AS) SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)), which revises SFAS No. 123, *Accounting ock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Issued to Employees.* SFAS 123(R) requires that companies recognize compensation expense associated tock option grants and other equity instruments to employees in the financial statements. That expense is nized in the statement of operations over the period during which an employee is required to provide e in exchange for the reward. Stock-based compensation expense is recorded in research and opment expense or marketing, general and administrative expense depending on the employee s job on. SFAS 123(R) applies to all grants after the effective date and to the unvested portion of stock options nding as of the effective date. The pro forma disclosures previously permitted under SFAS 123 are no r an alternative to financial statement recognition. We are using the modified-prospective method and the -Scholes valuation model for valuing the share-based payments. We will continue to account for ctions in which services are received in exchange for equity instruments based on the fair value of such es received from non-employees, in accordance with SFAS 123 and EITF Issue No. 96-18, *Accounting uity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, s or Services.*

ts of Operations

parison of Years Ended December 31, 2006 and 2005

ues

tal revenues were $31.7 million for the year ended December 31, 2006. The license fee revenues of million are attributable to the license and collaboration agreement, effective January 2006, with Zeneca for the development and commercialization of AGI-1067. This amount represents the earned n of the $50.0 million nonrefundable license fee that is being amortized over 24 months. The research evelopment revenues of $8.8 million are for services performed for AstraZeneca related to the FOCUS al trial. There were no revenues during 2005.

ses

search and Development. Research and development expenses were $82.9 million for the year ended
nber 31, 2006, compared to $71.3 million for the same period in 2005. The increase of $11.6 million, or
is primarily due to expenditures associated with the ARISE clinical trial and the start up of the FOCUS
al trial, which include activities for clinical drug supply, data management, study monitoring and
ents to clinical investigators, and preparation for a New Drug Application filing. Also

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buting to the increase was the non- cash stock-based compensation of $4.9 million, resulting from the on of SFAS 123(R) in January 2006.

e expect that research and development expenses in 2007 will not be more than the 2006 level. Expenses 7 will be primarily related to activities surrounding the FOCUS clinical trial of approximately million, which will be fully funded by AstraZeneca, and regulatory activities related to U.S. NDA ration.

rketing, General and Administrative. Marketing, general and administrative expenses were million for the year ended December 31, 2006, compared to $9.1 million for the same period in 2005. crease of $4.3 million, or 48%, is primarily due to the non-cash stock-based compensation of illion, resulting from the adoption of SFAS123(R) in January 2006 partially offset by lower sional fees associated with the license and collaboration agreement incurred in 2005.

st and Other Income

erest and other income is primarily comprised of interest income earned on our cash and short-term ments. Interest and other income was $9.2 million for the year ended December 31, 2006, compared to illion for the same period in 2005. The increase was primarily a result of higher interest rates on our ments.

st Expense

erest expense was $8.4 million for the year ended December 31, 2006 compared to $8.9 million for the period in 2005. The decrease in interest expense is due to the lower aggregate principal amount of our convertible notes outstanding compared to prior year. Our outstanding debt balance was decreased by million in January 2006 when certain note holders elected to convert their holdings into shares of our on stock.

Expense

her expense was $3.5 million for the year ended December 31, 2006. The increase in other expense is $3.5 million of non-cash expense related to the exchange of $14.0 million of our 4.5% convertible notes mmon stock in the first quarter of 2006. There was no other expense in 2005.

e Taxes

of December 31, 2006, we had net operating loss carryforwards and research and development credit orwards of $331.9 million and $12.0 million, respectively, available to offset future taxable income. The erating loss carryforwards and the research and development credit carryforwards will expire between and 2027. Because of our lack of earnings history, the resulting deferred tax assets have been fully offset aluation allowance. The utilization of the carryforwards is dependent upon the timing and extent of our profitability. The annual limitations combined with the expiration dates of the carryforwards may nt the utilization of all of the net operating loss and research and development credit carryforwards if we attain sufficient profitability by the expiration dates of the carryforwards.

parison of Years Ended December 31, 2005 and 2004

ues

ere were no revenues during 2005 or 2004.

ses

search and Development. Research and development expenses were $71.3 million in 2005, compared to million in 2004. The increase of $12.0 million, or 20%, was primarily due to increased expenditures for GI-1067 ARISE Phase III clinical trial, including manufacturing activities for clinical drug supply, study oring, payments to clinical investigators and salary and personnel related expenses.

neral and Administrative. General and administrative expenses were $9.1 million in 2005, compared to illion in 2004. The increase of $2.4 million, or 37%, was primarily due to an increase in the cost of 1067 business development activities,

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ing legal fees for the license and collaboration agreement with AstraZeneca and market research costs. contributing to the increase were higher legal fees related to litigation expenses.

st and Other Income

erest and other income is primarily comprised of interest income earned on our cash and short-term ments. Interest and other income was $6.7 million in 2005, compared to $1.4 million in 2004. The se was due to the additional funds received from the issuance of $200.0 million in aggregate principal nt of 1.5% convertible notes in January 2005 along with an increase in rates on our interest bearing nts.

st Expense

erest expense was $8.9 million in 2005 compared to $5.2 million in 2004. The increase in interest se is due to the issuance of $200.0 million in aggregate principal amount of 1.5% convertible notes in ry 2005.

e Taxes

of December 31, 2005, we had net operating loss carryforwards and research and development credit orwards of $299.1 million and $9.4 million, respectively, available to offset future taxable income.

dity and Capital Resources

ce inception, we have financed our operations primarily through sales of equity securities and rtible notes. At December 31, 2006, we had cash, cash equivalents and short-term investments of 8 million, compared with $182.5 million and $66.9 million at December 31, 2005 and 2004, ctively. Working capital at December 31, 2006 was $118.8 million, compared to $173.2 million and million at December 31, 2005 and 2004, respectively. The decrease in cash, cash equivalents, short-term ments and working capital in 2006 is primarily due to the use of funds for operating purposes. The se in cash, cash equivalents and short-term investments and working capital in 2005 is due to funds ed from the issuance of our 1.5% convertible notes in January 2005 that raised net proceeds of ximately $193.6 million.

t cash used in operating activities was $27.0 million in 2006 compared to $77.8 million in 2005 and million in 2004. The decrease in the use of cash in operating activities in 2006 is primarily attributable ding a net loss of $67.3 million, partially offset by revenue recognized in connection with the million license fee received from AstraZeneca. The increase in the use of cash in operating activities in and 2004 is principally due to funding a net loss of $82.6 million and $69.6 million, respectively. The se in cash needed to fund the net loss is primarily attributable to expenditures for our ARISE Phase III l trial for AGI-1067, as well as other ongoing product development activities. For 2007, cash ditures for the ARISE and FOCUS clinical trials are estimated to be approximately $15.0 million and million, respectively.

t cash provided by investing activities was $30.4 million in 2006 compared to net cash used in investing ies of $51.7 million in 2005 and $27.1 million provided by investing activities in 2004. Net cash ed by investing activities in 2006 consisted primarily of net sales of available-for-sale securities. This artially offset by $5.5 million to purchase equipment and leasehold improvements, which includes illion for commercial manufacturing equipment. Net cash used in investing activities in 2005 consisted rily of net purchases of available-for-sale securities. Additionally, in 2005, $3.0 million was used to ase equipment and leasehold improvements, which includes $1.9 million spent for commercial facturing equipment. Net cash provided by investing activities in 2004 consisted primarily of net sales of ble-for-sales securities.

t cash provided by financing activities was $1.7 million in 2006 compared to $196.5 million in 2005 and illion in 2004. Net cash provided by financing activities in 2006 consisted primarily of proceeds ed upon exercise of common stock options. Net cash provided by financing activities in 2005 consisted rily of $193.6 million received from the issuance of 1.5% convertible notes in January 2005. Net cash ed by financing activities in 2004 consisted primarily of the proceeds received upon exercise of on stock options.

August 2003, we issued $100 million in aggregate principal amount of 4.5% convertible notes due 2008 gh a Rule 144A private placement to qualified institutional buyers. These notes initially are convertible ur common stock at a conversion rate of 65.1890 shares per $1,000 principal amount of notes, or ximately $15.34 per share. Net proceeds were approximately $96.7 million. Interest on the 4.5% rtible notes is payable semi-annually in arrears on March 1 and September 1. As of December 31,

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we have recorded $1.3 million of accrued interest expense related to the notes, which is due March 1,
In January 2006, we exchanged $14.0 million in aggregate principal amount of the 4.5% convertible
for 1,085,000 shares of our common stock. From time to time, we may enter into additional exchange
and/or purchases of these notes.
January 2005, we issued $200 million in aggregate principal amount of 1.5% convertible notes due 2012
gh a Rule 144A private placement to qualified institutional buyers. These notes are convertible into
of our common stock at a conversion rate of 38.5802 shares per $1,000 principal amount of notes, or
ximately $25.92 per share. Interest on the 1.5% convertible notes is payable semi-annually in arrears on
ary 1 and August 1. Net proceeds were approximately $193.6 million. As of December 31, 2006, we
ecorded $1.3 million of accrued interest expense related to the notes, which is due February 1, 2007. We
ing the net proceeds from the sale of the notes to fund the ongoing costs of the ARISE Phase III clinical
or AGI-1067 and other research and development activities, including clinical trials, process
opment and manufacturing support, and for general corporate purposes, including working capital.
ng these uses, the net proceeds have been invested in interest-bearing, investment grade securities.
e following table summarizes our long-term contractual obligations as of December 31, 2006:

	Payments Due by Period				
	Total	**2007**	**2008-2009**	**2010-2011**	**Thereafter**
actual obligations					
ting leases	$ 2,830,028	$ 1,381,773	$ 1,446,500	$ 1,755	$
term debt	286,000,000		86,000,000		200,000,000
st on long-term	21,700,000	6,870,000	8,580,000	6,000,000	250,000
contractual tions	$ 310,5308,028	$ 8,251,773	$ 96,026,500	$ 6,001,755	$ 200,250,000

sed upon the current status of our product development and commercialization plans, we believe that our
g cash, cash equivalents and short-term investments will be adequate to satisfy our capital needs for at
he next 12 months. However, our actual capital requirements will depend on many factors, including
factors potentially impacting our financial condition as discussed in Item 1A. Risk Factors and the
ing:

- the scope and results of our research, preclinical and clinical development activities;
- the timing of, and the costs involved in, obtaining regulatory approvals;
- the timing, receipt and amount of sales and royalties, if any, from our potential product candidates;
- the timing, receipt and amount of milestone and other payments, if any;
- our ability to maintain our collaborations with AstraZeneca and Astellas and the financial terms of our collaborations;
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other patent-related costs; and
- the extent to which we acquire or invest in businesses, products and technologies.

e have historically accessed the capital markets from time to time to raise adequate funds for operating and cash reserves. Although we believe we have adequate cash for at least the next 12 months, we may capital markets when we believe market conditions or company needs merit doing so.

7A. Quantitative and Qualitative Disclosures about Market Risk

e primary objective of our investment activities is to preserve principal while at the same time nizing the income we receive from our investments without significantly increasing risk. Some of the ties that we invest in may have market risk. This means that a change in prevailing interest rates may the fair value of the principal amount of the investment to fluctuate. For example, if we hold a security as issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, r value of the principal amount of our investment will probably decline. To minimize this risk in the , we intend to continue to maintain our portfolio of cash equivalents and short-term investments in a y of securities, including commercial paper, all of which have a minimum investment rating of A1/P1, y market funds, and government and non-government debt securities. The average

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on of all of our investments has generally been less than one year. Due to the short-term nature of these ments, we believe we have no material exposure to interest rate risk arising from our investments. e following table summarizes the maturity of the debt and projected annual weighted average interest on our convertible notes as of December 31, 2006.

	2007	2008-2009	2010-2012	Total	Value as of December 31, 2006
term debt fixed laturity	$	$86,000,000	$200,000,000	$286,000,000	$246,600,000
ted average st rate		4.5%	1.5%		

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8. ***Financial Statements and Supplementary Data***

ATHEROGENICS, INC.
INDEX TO FINANCIAL STATEMENTS
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MANAGEMENT S ANNUAL REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

nagement of AtheroGenics, Inc. is responsible for establishing and maintaining adequate internal
l over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act
4, as amended. AtheroGenics internal control over financial reporting is designed to provide reasonable
nce regarding the reliability of financial reporting and the preparation of financial statements for
al purposes in accordance with U.S. generally accepted accounting principles. AtheroGenics internal
l over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of AtheroGenics;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of AtheroGenics are being made only in accordance with authorizations of management and directors of AtheroGenics; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of AtheroGenics assets that could have a material effect on the financial statements.

cause of its inherent limitations, internal control over financial reporting may not prevent or detect
tements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that
ls may become inadequate because of changes in conditions, or that the degree of compliance with the
es or procedures may deteriorate.

nagement, including AtheroGenics principal executive officer and principal financial officer, assessed
fectiveness of AtheroGenics internal control over financial reporting as of December 31, 2006. In
g this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations
Treadway Commission (COSO) in Internal Control-Integrated Framework.

sed on our assessment and those criteria, management believes that AtheroGenics maintained effective
al control over financial reporting as of December 31, 2006.

heroGenics independent registered public accounting firm has issued an attestation report on
gement s assessment of AtheroGenics internal control over financial reporting which is included herein.

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EPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL

oard of Directors and Shareholders of AtheroGenics, Inc.

e have audited management s assessment, included in the accompanying Management s Annual Report on al Control Over Financial Reporting, that AtheroGenics, Inc. maintained effective internal control over ial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated ework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO a). AtheroGenics, Inc. s management is responsible for maintaining effective internal control over ial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our nsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the any s internal control over financial reporting based on our audit.

e conducted our audit in accordance with the standards of the Public Company Accounting Oversight (United States). Those standards require that we plan and perform the audit to obtain reasonable nce about whether effective internal control over financial reporting was maintained in all material ts. Our audit included obtaining an understanding of internal control over financial reporting, evaluating gement s assessment, testing and evaluating the design and operating effectiveness of internal control, erforming such other procedures as we considered necessary in the circumstances. We believe that our provides a reasonable basis for our opinion.

company s internal control over financial reporting is a process designed to provide reasonable assurance ing the reliability of financial reporting and the preparation of financial statements for external purposes ordance with U.S. generally accepted accounting principles. A company s internal control over financial ing includes those policies and procedures that (1) pertain to the maintenance of records that, in nable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; ovide reasonable assurance that transactions are recorded as necessary to permit preparation of financial ents in accordance with U.S. generally accepted accounting principles, and that receipts and ditures of the company are being made only in accordance with authorizations of management and ors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of horized acquisition, use, or disposition of the company s assets that could have a material effect on the ial statements.

cause of its inherent limitations, internal control over financial reporting may not prevent or detect tements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that ls may become inadequate because of changes in conditions, or that the degree of compliance with the es or procedures may deteriorate.

our opinion, management s assessment that AtheroGenics, Inc. maintained effective internal control over ial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the COSO a. Also, in our opinion, AtheroGenics, Inc. maintained, in all material respects, effective internal control inancial reporting as of December 31, 2006 based on the COSO criteria**.**

e also have audited, in accordance with the standards of the Public Company Accounting Oversight (United States), the balance sheets of AtheroGenics, Inc. as of December 31, 2006 and 2005, and the d statements of operations, shareholders (deficit) equity and cash flows for each of the three years in the ended December 31, 2006 and our report dated March 7, 2007 expressed an unqualified opinion n.

/s/ Ernst & Young LLP

a, Georgia
n 7, 2007

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EPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

oard of Directors and Shareholders of AtheroGenics, Inc.

e have audited the accompanying balance sheets of AtheroGenics, Inc. as of December 31, 2006 and and the related statements of operations, shareholders (deficit) equity and cash flows for each of the years in the period ended December 31, 2006. These financial statements are the responsibility of the any s management. Our responsibility is to express an opinion on these financial statements based on our .

e conducted our audits in accordance with auditing standards of the Public Company Accounting ight Board (United States). Those standards require that we plan and perform the audit to obtain nable assurance about whether the financial statements are free of material misstatement. An audit es examining, on a test basis, evidence supporting the amounts and disclosures in the financial ents. An audit also includes assessing the accounting principles used and significant estimates made by gement, as well as evaluating the overall financial statement presentation. We believe that our audits le a reasonable basis for our opinion.

our opinion, the financial statements referred to above present fairly, in all material respects, the ial position of AtheroGenics, Inc. at December 31, 2006 and 2005, and the results of its operations and h flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. ally accepted accounting principles.

discussed in Note 1 to the accompanying financial statements, the Company adopted Statement of cial Accounting Standards No. 123(R), *Share-Based Payment*, on January 1, 2006.

e also have audited, in accordance with the standards of the Public Company Accounting Oversight (United States), the effectiveness of AtheroGenics, Inc. s internal control over financial reporting as of nber 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the nittee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2007 ssed an unqualified opinion thereon.

/s/ Ernst & Young LLP

a, Georgia
n 7, 2007

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ATHEROGENICS, INC.
BALANCE SHEETS

	December 31, 2006	2005
s		
nt assets:		
and cash equivalents	$ 87,846,079	$ 82,831,679
term investments	63,964,860	99,672,844
nts receivable	6,537,892	19,393
d expenses	4,038,419	2,639,900
st receivable and other current assets	643,097	880,799
current assets	163,030,347	186,044,615
ment and leasehold improvements, net of accumulated ciation and amortization	9,684,965	4,108,462
ssuance costs and other assets	5,624,352	7,344,450
assets	$ 178,339,664	$ 197,497,527
lities and Shareholders Deficit		
nt liabilities:		
nts payable	$ 3,183,511	$ 2,188,461
ed research and development	11,263,164	3,946,970
ed interest	2,540,000	2,750,000
ed compensation	1,465,644	2,649,640
ed and other liabilities	791,661	1,344,876
nt portion of deferred revenue	25,000,000	
current liabilities	44,243,980	12,879,947
ertible notes payable and equipment loan, net of current portion	286,000,000	300,053,796
term portion of deferred revenue	2,083,333	
holders deficit:		
red stock, no par value: Authorized 5,000,000 shares		
non stock, no par value:		
rized 100,000,000 shares; issued and outstanding 39,452,927 ,143,678 shares at December 31, 2006 and 2005, respectively	207,388,894	178,771,376
nts	613,021	620,223
mulated deficit	(361,997,246)	(294,674,874)
mulated other comprehensive income (loss)	7,682	(152,941)
shareholders deficit	(153,987,649)	(115,436,216)
liabilities and shareholders deficit	$ 178,339,664	$ 197,497,527

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

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ATHEROGENICS, INC.
STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2006	**2005**	**2004**
ues:			
se fees	$ 22,916,667	$	$
rch and development	8,758,178		
revenues	31,674,845		
ting expenses:			
rch and development	82,855,340	71,278,945	59,235,833
al and administrative	13,373,112	9,050,290	6,607,506
operating expenses	96,228,452	80,329,235	65,843,339
ting loss	(64,553,607)	(80,329,235)	(65,843,339)
st and other income	9,175,817	6,691,965	1,447,001
st expense	(8,423,346)	(8,917,057)	(5,192,894)
expense	(3,521,236)		
ss	$ (67,322,372)	$ (82,554,327)	$ (69,589,232)
ss per share basic and diluted	$ (1.71)	$ (2.19)	$ (1.88)
ted average shares outstanding basic and d	39,383,376	37,774,203	37,070,235

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

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ATHEROGENICS, INC.
STATEMENTS OF SHAREHOLDERS (DEFICIT) EQUITY

	Common Stock			Deferred Stock		Accumulated Other Comprehensive (Loss)	Total Shareholders (Deficit)
	Shares	Amount	Warrants	Compensation	Accumulated Deficit	Income	Equity
t							
, 2004	36,763,407	$ 172,452,536	$ 950,588	$ (505,708)	$ (142,531,315)	$ 10,905	$ 30,377,006
f tock for f stock $.30 to share f tock for	495,265	2,783,894					2,783,894
	109,986	289,540	(289,540)				
ts to ue for ock d ssued to yees on of ock ion		145,663	167,756	(313,419)			
		41,632		494,520			536,152
					(69,589,232)		(69,589,232)
loss or-sale						(50,202)	(50,202)
nsive							(69,639,434)
t 31,	37,368,658	175,713,265	828,804	(324,607)	(212,120,547)	(39,297)	(35,942,382)
f tock for f stock $.10 to share f tock for	727,178	2,989,844					2,989,844
	47,842	154,768	(154,768)				

ts to ue for ock d ssued to yees		(27,456)	(53,813)	81,269			
on of ock ion				184,293			184,293
					(82,554,327)		(82,554,327)
loss							
or-sale						(113,644)	(113,644)
nsive							(82,667,971)
t **31,**	38,143,678	178,830,421	620,223	(59,045)	(294,674,874)	(152,941)	(115,436,216)
f tock for stock $.30 to share	224,249	1,762,357					1,762,357
f tock for rsion	1,085,000	17,562,557					17,562,557
ts to ue for ock d ssued to yees		(5,433)	(7,202)	12,635			
on of yee ock ion				46,410			46,410
ed ion		9,238,992					9,238,992
					(67,322,372)		(67,322,372)
gain							
or-sale						160,623	160,623
nsive							(67,161,749)

t
31,

39,452,927	$ 207,388,894	$ 613,021	$	$ (361,997,246)	$ 7,682	$ (153,987,649)

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

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ATHEROGENICS, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2006	**2005**	**2004**
ating activities			
ss	$ (67,322,372)	$ (82,554,327)	$ (69,589,232)
tments to reconcile net loss to net cash used rating activities:			
tization of license fee	(22,916,667)		
-based compensation	9,285,402	184,293	536,152
on debt conversion	3,521,236		
tization of debt issuance costs	1,483,169	1,504,172	652,981
ciation and amortization	972,009	808,599	883,312
ges in operating assets and liabilities:			
unts receivable	(6,518,499)		
d expenses	(1,398,519)	(5,603)	(1,490,291)
st receivable and other assets	237,702	(351,787)	(28,963)
unts payable	995,050	(649,592)	1,059,866
ed research and development	6,262,136	(136,924)	1,122,809
ed interest	68,250	1,250,000	(162,500)
ed compensation	(1,183,996)	1,410,393	200,340
ed and other liabilities	(519,431)	755,076	203,893
red revenue	50,000,000		
sh used in operating activities	(27,034,530)	(77,785,700)	(66,611,633)
ting activities			
ases of short-term investments	(102,945,761)	(200,633,447)	(76,544,056)
and maturities of short-term investments	138,814,368	151,882,055	103,984,437
ases of equipment and leasehold vements	(5,494,454)	(2,977,050)	(302,533)
sh provided by (used in) investing activities	30,374,153	(51,728,442)	27,137,848
cing activities			
eds from the sale of convertible notes		193,566,977	
eds from the exercise of common stock s	1,762,357	2,989,844	2,783,894
ents on equipment loan	(87,580)	(99,919)	(479,439)
sh provided by financing activities	1,674,777	196,456,902	2,304,455
se (decrease) in cash and cash equivalents	5,014,400	66,942,760	(37,169,330)
and cash equivalents at beginning of year	82,831,679	15,888,919	53,058,249
and cash equivalents at end of year	$ 87,846,079	$ 82,831,679	$ 15,888,919

emental disclosures of cash flow nation			
st paid	$ 6,871,927	$ 6,162,886	$ 4,676,472

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

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NOTES TO FINANCIAL STATEMENTS

scription of Business and Significant Accounting Policies

iption of Business

heroGenics, Inc. (AtheroGenics) was incorporated on November 23, 1993 (date of inception) in the State orgia to focus on the discovery, development and commercialization of novel therapeutics for the ent of chronic inflammatory diseases, such as heart disease (atherosclerosis), organ transplant rejection, atoid arthritis and asthma.

f Estimates

e preparation of the financial statements in conformity with U.S. generally accepted accounting ples requires management to make estimates and assumptions that affect the amounts reported in the ial statements and accompanying notes. Actual results could differ from those estimates.

and Cash Equivalents

heroGenics considers all highly liquid investments with a maturity of three months or less when ased to be cash equivalents. AtheroGenics cash equivalents consist primarily of money market accounts, ercial paper, government agency notes and corporate notes on deposit with several financial institutions, e carrying amounts reported in the balance sheets approximate their fair value.

Term Investments

ort-term investments consist of government agency notes, corporate notes, commercial paper and cates of deposit with original maturities of greater than three months when purchased.

nagement determines the appropriate classification of debt securities at the time of purchase and uates such designation as of each balance sheet date. These investments are accounted for in accordance tatement of Financial Accounting Standards, (SFAS) No. 115, *Accounting for Certain Investments in and Equity Securities*. AtheroGenics has classified all investments as available-for-sale.

able-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported eparate component of shareholders (deficit) equity. Realized gains and losses are included in investment e and are determined on a specific identification basis.

Value of Financial Instruments and Concentration of Credit Risk

nancial instruments that subject AtheroGenics to concentration of credit risk consist primarily of cash, quivalents and short-term investments. These assets are maintained by reputable third party financial tion custodians. The carrying values reported in the balance sheets for cash, cash equivalents and term investments approximate fair values.

nts Receivable

counts receivable consists of billed and unbilled receivables related to the FOCUS (**F**ollow-up **O**f al Outcomes: The Long-term AGI-1067 Plus **U**sual Care **S**tudy) clinical trial and our license and oration agreement with IPR Pharmaceuticals, Inc. (AstraZeneca). Unbilled receivables represent nts due, which have not been billed as of the current balance sheet date. As of December 31, 2006, nts receivable were $2,985,584 and unbilled receivables were $3,552,308.

ment and Leasehold Improvements

uipment and leasehold improvements are stated at cost. Depreciation of computer and lab equipment is uted using the straight-line method over the estimated useful lives of three and five years, respectively. tization of leasehold improvements is recorded over the shorter of: (a) the estimated useful lives of the d assets; or (b) the lease term.

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rch and Development Accrual

part of the process of preparing its financial statements, AtheroGenics is required to estimate expenses believes it has incurred, but has not yet been billed for. This process involves identifying services and ies that have been performed by third party vendors on its behalf and estimating the level to which they been performed and the associated cost incurred for such service as of each balance sheet date in its ial statements. Examples of expenses for which AtheroGenics accrues include fees for professional es, such as those provided by certain clinical research organizations and investigators in conjunction linical trials, and fees owed to contract manufacturers in conjunction with the manufacture of clinical naterials. AtheroGenics makes these estimates based upon progress of activities related to contractual tions and also information received from vendors.

ue Recognition

heroGenics recognizes revenue in accordance with the SEC s Staff Accounting Bulletin (SAB) No. 101, *ue Recognition in Financial Statements,* as amended by Staff Accounting Bulletin No. 104, *Revenue nition,* (SAB 104). SAB 104 provides guidance in applying U.S. generally accepted accounting ples to revenue recognition issues, and specifically addresses revenue recognition for upfront, fundable fees received in connection with research collaboration agreements.

accordance with SAB 104, license fees, which are nonrefundable, are recognized when the related e agreements specify that no further efforts or obligations are required of us.

venues under the research and development agreement pertaining clinical trials are recognized in dance with SAB 104 and Emerging Issues Task Force (EITF) Issue No. 99-19, *Reporting Gross Revenue rincipal vs. Net as an Agent.* According to the criteria established by EITF Issue No. 99-19, oGenics is the primary obligor of the agreement because it is responsible for the selection, negotiation, cting and payment of the third party suppliers. In addition, any liabilities resulting from the agreement e responsibility of AtheroGenics. Research and development revenues are recognized, on a gross basis, vities are performed under the terms of the related agreement. Revenues that have not been invoiced are ted as unbilled receivables as described in the accounts receivable note to the financial statements.

rch and Development and Patent Costs

search and development costs, including all related salaries, clinical trial expenses, facility costs and ditures related to obtaining patents, are charged to expense when incurred.

Based Compensation

December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *-Based Payment,* (SFAS 123(R)), which revises SFAS No. 123 *Accounting for Stock-Based ensation* (SFAS 123) and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting ock Issued to Employees* (APB 25). SFAS 123(R) requires that companies recognize expense associated tock option grants and other equity instruments to employees in the financial statements. SFAS 123(R) ffective January 1, 2006 and applies to all grants after the effective date and to the unvested portion of options outstanding as of the effective date.

January 1, 2006, AtheroGenics adopted SFAS 123(R) using the modified prospective method. For the nded December 31, 2006, AtheroGenics recorded approximately $9.2 million of employee stock-based ensation expense. As a result of adopting SFAS 123(R), AtheroGenics net loss per share was impacted) for the year ended December 31, 2006. AtheroGenics has a net operating loss carryforward as of nber 31, 2006, and therefore no excess tax benefits for tax deductions related to the stock options were nized. As of December 31, 2006, unamortized stock-based compensation expenses of approximately million remain to be recognized over a weighted average period of approximately three years.

heroGenics estimated the fair value of stock options granted during the year ended December 31, 2006 the Black-Scholes option valuation model. AtheroGenics has calculated a 5.66% forfeiture rate based on ical data. The weighed average expected volatility of 64.92% is based on historical volatility of oGenics common stock. The expected term of five years for the stock options granted is also based on ical data and represents the period of time that stock options granted are expected to be outstanding. The

ted average risk free interest rate of 4.7 % is based on the U.S. Treasury rates in effect at the time of the
for periods

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ponding with the expected term of the options. The weighted average value per share of the options
d during the year ended December 31, 2006 is $7.58.

or to the adoption of SFAS 123(R), AtheroGenics accounted for its stock-based compensation expenses
the provision of APB 25 and related interpretations. Under APB 25, if the exercise price of employee
options equals or exceeds the market price of the underlying stock on the date of grant, no compensation
se was recognized. AtheroGenics had adopted the provisions of SFAS 123 as amended by SFAS
48, *Accounting for Stock-Based Compensation Transition and Disclosure,* using pro forma disclosure

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

	2005	2004
ss, as reported	$ (82,554,327)	$ (69,589,232)
Stock-based employee compensation expense included in ed net loss		57,511
t: Total stock-based employee compensation expense determined fair value based method for all awards	(8,764,619)	(6,125,770)
rma net loss	$ (91,318,946)	$ (75,657,491)
ss per share:		
and diluted, as reported	$ (2.19)	$ (1.88)
and diluted, pro forma	$ (2.42)	$ (2.04)

e fair value for these options (which are granted with an exercise price equal to fair market value on the
date) was estimated using the Black-Scholes option valuation model with the following weighted
ge assumptions:

	2005	2004
ted life	5 years	5 years
free interest rate	4.21%	4.25%
lity	77.75%	78.67%
alue of grants	$ 8.80	$15.27

e Taxes

e liability method is used in accounting for income taxes. Deferred income tax assets and liabilities are
nined based on differences between financial reporting and tax bases of assets and liabilities and are
red using the enacted tax rates and laws that are expected to be in effect when the differences are
pated to reverse.

rehensive Income (Loss)

heroGenics computes comprehensive income (loss) in accordance with SFAS No. 130, *Reporting rehensive Income* (SFAS 130). SFAS 130 establishes standards for the reporting and display of rehensive income (loss) and its components in the financial statements. Comprehensive income (loss), as d, includes all changes in equity during a period from non-owner sources, such as unrealized gains and on available-for-sale securities. Comprehensive loss was $67,161,749, $82,667,971 and $69,639,434

e years ended December 31, 2006, 2005 and 2004, respectively.

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tly Issued Accounting Standards

July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, erpretation of FASB statement No. 109* (FIN 48). FIN 48 clarifies the accounting uncertainty in income by prescribing the recognition threshold a tax position is required to meet before being recognized in the ial statements. It also provides guidance on derecognition, classification, interest and penalties, nting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after nber 15, 2006 and is required to be adopted on January 1, 2007. AtheroGenics does not expect the on of FIN 48 to have a material impact on its results of operations.

laborations

2005, AtheroGenics announced a license and collaboration agreement with AstraZeneca for the global opment and commercialization of AGI-1067. Under the terms of the agreement, AtheroGenics received ront nonrefundable license fee of $50 million and, subject to the achievement of specific milestones ing a successful outcome in ARISE (**A**ggressive **R**eduction of **I**nflammation **S**tops **E**vents), oGenics will be eligible for development and regulatory milestones of up to an aggregate of million. The agreement also provides for progressively demanding sales performance related milestones to an additional $650 million in the aggregate. In addition, AtheroGenics will also receive royalties on ct sales. AstraZeneca is responsible for supplying all of the manufacturing, packaging and labeling. Zeneca has the right to terminate the license and collaboration agreement at specified periods. The t nonrefundable license payment will be recognized on a straight-line basis over the 24 month period theroGenics estimates it is obligated to provide services to the licensee. In 2006, revenues were ximately $22.9 million related to the amortization of the upfront license fee from AstraZeneca. the second half of 2006, AtheroGenics was engaged by AstraZeneca to conduct FOCUS (**F**ollow-up **O**f al Outcomes: The Long-term AGI-1067 Plus **U**sual Care **S**tudy). FOCUS is a follow-up Phase III l trial for patients exiting ARISE, designed to collect extended safety information. The trial could last ears beyond ARISE. In 2006, research and development revenues were approximately $8.8 million d to services performed for AstraZeneca related to the FOCUS clinical trial.

2004, AtheroGenics announced a collaboration with Astellas Pharma Inc. (Formerly Known As wa Pharmaceutical Co., Ltd.) to develop AGI-1096 as an oral treatment for the prevention of organ lant rejection. Under the agreement, AtheroGenics agreed to collaborate with Astellas to conduct nical and early stage clinical development trials, with Astellas funding all development costs during the of the agreement. Astellas received an option to negotiate for late stage development and commercial to the compound. In February 2006, AtheroGenics extended the collaboration with Astellas.

ort-Term Investments

ort-term investments consist of debt securities classified as available-for-sale and have maturities greater 0 days from the date of acquisition. AtheroGenics has invested primarily in corporate notes and ercial paper, all of which have a minimum investment rating of A1/P1, and government agency notes. were no realized gains or losses from the sale of investments for the year ended December 31, 2006. ealized loss from the sale of investments was $11,768 for the year ended December 31, 2005. The ative unrealized gains were $7,682 at December 31, 2006 and the cumulative unrealized losses were 941 at December 31, 2005. The following table summarizes the estimated fair value of AtheroGenics term investments:

	December 31,	
	2006	**2005**
nment agency notes	$ 28,739,955	$ 37,216,713
ercial paper	22,715,730	14,708,628
rate notes	12,509,175	46,246,424
icate of deposit		1,501,079

	$ 63,964,860	$ 99,672,844

available-for-sale securities held at December 31, 2006 will mature during 2007.

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uipment and Leasehold Improvements

uipment and leasehold improvements consist of the following:

	December 31, 2006	2005
ruction-in-progress	$ 5,429,178	$ 1,877,596
atory equipment	3,382,243	2,564,319
nold improvements	3,244,412	1,959,129
uter and office equipment	2,349,797	1,757,905
	14,405,630	8,158,949
mulated depreciation and amortization	(4,720,665)	(4,050,487)
quipment and leasehold improvements	$ 9,684,965	$ 4,108,462

March 2005, AtheroGenics had committed to purchase certain commercial manufacturing equipment for 067, to be delivered in 2006. In March 2006, AstraZeneca assumed this commitment, and the costs are l equally between AtheroGenics and AstraZeneca, subject to a limit on AtheroGenics portion, as part of nt license and collaboration agreements that were signed in December 2005. AtheroGenics expects that tion of the cost of the equipment and the construction, installation and start-up costs related to the ment will be approximately $9.0 million over the life of the project. Under the terms of the license ment this amount may be reimbursed by AstraZeneca when certain termination rights expire. As of nber 31, 2006, approximately $5.4 million has been recorded in construction-in-progress for this ment.

nvertible Notes Payable

August 2003, AtheroGenics issued $100,000,000 in aggregate principal amount of 4.5% convertible due September 1, 2008 with interest payable semi-annually in March and September. Net proceeds to oGenics were approximately $96,700,000, after deducting expenses and underwriter s discounts and issions. The issuance costs related to the notes are recorded as debt issuance costs and other assets and ing amortized to interest expense over the five-year life of the notes. The notes may be converted into of AtheroGenics common stock, at the option of the holder, prior to the close of business on mber 1, 2008 at a conversion rate of 65.1890 shares per $1,000 principal amount of notes, representing a rsion price of approximately $15.34. In January 2006, AtheroGenics exchanged $14.0 million in gate principal amount of the 4.5% convertible notes for approximately 1.1 million shares of oGenics common stock. In accordance with SFAS No. 84, *Induced Conversion of Convertible Debt*, this ction resulted in a non-cash charge of approximately $3.5 million related to the premium paid in excess conversion price in order to induce conversion of the notes and the write-off of the portion of debt ce costs attributable to the notes converted. This amount is recorded as other expense in the statements erations.

January 2005, AtheroGenics issued $200,000,000 in aggregate principal amount of 1.5% convertible due February 1, 2012 with interest payable semi-annually in February and August. Net proceeds to oGenics were approximately $193,600,000, after deducting expenses and underwriter s discounts and issions. The issuance costs related to the notes are recorded as debt issuance costs and other assets and ing amortized to interest expense over the seven-year life of the notes. The 1.5% convertible notes may nverted into shares of AtheroGenics common stock, at the option of the holder, at a conversion rate of 02 shares per $1,000 principal amount of notes, which represents a conversion price of approximately 2.

e conversion rate for both series of notes is subject to adjustment for stock dividends and other dilutive
ctions. In addition, AtheroGenics Board of Directors may, to the extent permitted by applicable law,
se the conversion rate provided that the Board of Directors has determined that such increase is in the
nterest of AtheroGenics and such increase remains effective for a period of at least twenty days.
oGenics may also be required to redeem the notes on an accelerated basis if AtheroGenics defaults on
n other debt obligations or if AtheroGenics common stock or consideration received in exchange for
ommon stock is not tradable on a national securities exchange or system of automated quotations.
of December 31, 2006, AtheroGenics has reserved a total of 13,322,307 shares of common stock for
issuance in connection with the 4.5% convertible notes and the 1.5% convertible notes. In addition, as
cember 31, 2006, there was approximately $1,290,000 of accrued interest related to the 4.5% convertible
which is due March 1, 2007, and $1,250,000 of accrued interest related to the 1.5% convertible notes,
is due February 1, 2007.

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aturities of long-term debt as of December 31, 2006 are as follows:

	$ 86,000,000
	200,000,000
	$ 286,000,000

Loss Per Share

AS No. 128, *Earnings per Share,* requires presentation of both basic and diluted earnings per share. earnings per share is computed by dividing net income (loss) by the weighted average number of shares mmon stock outstanding during the period. Diluted earnings per share is computed in the same manner as earnings per share except that diluted earnings per share reflects the potential dilution that would occur if nding options, warrants and convertible notes payable were exercised.

ring all periods presented, AtheroGenics had securities outstanding that could potentially dilute basic gs per share in the future, but were excluded from the computation of diluted net loss per share, as their would have been antidilutive. These outstanding securities consist of the following at the dates ted:

	Year Ended December 31,		
	2006	**2005**	**2004**
s underlying convertible notes	13,322,307	14,234,953	6,518,904
ns	6,521,524	4,375,632	4,955,801
nts	82,436	82,436	142,310
	19,926,267	18,693,021	11,617,015
ted average conversion price of shares lying convertible notes	$ 21.47	$ 22.39	$ 15.34
ted average exercise price of options	$ 11.73	$ 11.17	$ 10..20
ted average exercise price of warrants	$ 5.64	$ 5.64	$ 4.78

cause AtheroGenics reported a net loss for all periods presented, shares associated with stock options, nts and the convertible notes are not included because they are antidilutive. Basic and diluted net loss per amounts are the same for the periods presented.

mmon Stock

November 2001, AtheroGenics Board of Directors adopted a Shareholder Rights Plan, declaring a nd distribution of one common stock purchase right on each outstanding share of its common stock. the rights become exercisable, the rights will trade automatically with the common stock of oGenics and separate rights certificates will not be issued. Under the rights plan, each right consists of an right and subsequent rights. Initial rights will be exercisable only if a person or group acquires 15% or of AtheroGenics common stock, whether through open market or private purchases or consummation of er or exchange offer. If, following the exercise of initial rights, a person or group again acquires 15% or of AtheroGenics common stock, or a person or group who had previously acquired 15% or more of oGenics common stock acquires an additional 10% or more of the common stock, the subsequent rights e exercisable. Each right will initially entitle shareholders to buy eight shares of common stock at an se price equal to 20% of the then current market value of the common stock, calculated and adjusted

ling to the terms of the rights plan. The number of shares that can be purchased upon exercise will se as the number of shares held by the bidder increases.

AtheroGenics is acquired in a merger or other business combination, each right will entitle its holder to ase, at the right s then-current exercise price, a number of the acquiring company s shares equal in value se obtainable if the rights were exercisable in AtheroGenics common stock.

e rights are intended to enable all shareholders to realize the long-term value of their investment in oGenics. They will not prevent a takeover, but should encourage anyone seeking to acquire oGenics to negotiate with the Board of Directors prior to attempting a takeover. The Board of Directors edeem any non-exercisable rights at any time at its option at a redemption price of $.0001 per right. The plan expires at the close of business on November 8, 2011.

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ck Options and Warrants

ring 1997, AtheroGenics established an equity ownership plan (the 1997 Plan) whereby options to ase AtheroGenics common stock may be granted to employees, directors, consultants or contractors with se prices not less than the fair value of the shares on the dates of grant. The 1997 Plan, as amended, rizes the grant of options for up to 3,724,416 shares of AtheroGenics common stock. As of nber 31, 2006, AtheroGenics had 1,483,127 shares of common stock reserved for issuance under the Plan in connection with outstanding options or future grants. The 1997 Plan allows for grants of ualified options, incentive stock options and shares of restricted stock. Non-qualified options granted the 1997 Plan may vest immediately for non-employees, but vest over a four-year period for employees. ive stock options generally vest over four years.

ring 2001, AtheroGenics established an equity ownership plan (the 2001 Plan) whereby options to ase AtheroGenics common stock may be granted to employees, directors, consultants or contractors with se prices not less than the fair value of the shares on the dates of grant. The 2001 Plan authorizes the of options for up to 2,000,000 shares of AtheroGenics common stock. As of December 31, 2006, oGenics had 1,563,464 shares of common stock reserved for issuance under the 2001 Plan in connection utstanding options or future grants. The terms of the 2001 Plan are substantially similar to the terms of 97 Plan.

ring 2004, AtheroGenics established an equity ownership plan (the 2004 Plan) whereby options to ase AtheroGenics common stock may be granted to employees, directors, consultants or contractors with se prices not less than the fair value of the shares on the dates of grant. The 2004 Plan authorizes the of options for up to 4,500,000 shares of AtheroGenics common stock. As of December 31, 2006, oGenics had 4,484,000 shares of common stock reserved for issuance under the 2004 Plan in connection utstanding options or future grants. The terms of the 2004 Plan are substantially similar to the terms of 01 Plan and the 1997 Plan.

summary of stock option activity under previous plans, the 1997 Plan, the 2001 Plan and the 2004 Plan s:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
nding at January 1, 2004	4,403,179	$ 6.27		
ed	1,166,125	23.16		
ised	(496,908)	5.72		
led	(116,595)	10.23		
nding at December 31, 2004	4,955,801	10.20		
ed	317,900	13.46		
ised	(727,178)	4.11		
led	(170,891)	17.49		
nding at December 31, 2005	4,375,632	11.17		
ed	2,548,347	12.84		
ised	(224,249)	7.86		
led	(178,206)	18.71		

nding at December 31, 2006	6,521,524	$ 11.73	7.25	$12,871,106
d and expected to vest at nber 31, 2006	6,258,895	$ 11.66	7.16	$12,871,091
isable at December 31, 2006	3,434,055	$ 9.38	5.50	$12,869,460

e total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 2,036,178, $9,796,231 and $10,136,467, respectively. Cash received from option exercises during the ended December 31, 2006, 2005 and 2004 was $1,762,357, $2,989,844 and $2,783,894, respectively. oGenics has a net operating loss carryforward as of December 31, 2006, and therefore no excess tax ts for tax deductions related to the stock options were recognized.

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e following table summarizes information concerning currently outstanding and exercisable options
d under the 1997 Plan, the 2001 Plan and the 2004 Plan as of December 31, 2006.

	Options Outstanding			Options Exercisable	
ise Price	Number Outstanding	Weighted Average Remaining Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 7.41	1,932,568	4.01	$ 3.36	1,932,568	$ 3.36
13.29	1,725,905	9.35	10.55	294,535	10.00
15.78	1,710,819	8.31	15.22	598,613	14.75
32.95	1,152,232	7.96	22.33	608,339	22.93
32.95	6,521,524	7.25	11.73	3,434,055	9.38

ring 2006, 2005 and 2004, AtheroGenics recorded a total of $46,410, $184,293 and $478,641,
ctively, of amortization of deferred stock compensation related to options and warrants which had been
d to non-employees in prior years. At December 31, 2006, warrants to purchase 56,000 shares of
oGenics common stock remain outstanding which were issued in connection with a license agreement in

ployee Benefit Plan

heroGenics has a defined contribution plan covering eligible employees, which is qualified under
n 401(k) of the Internal Revenue Code (IRC). Under the provisions of the plan, eligible participating
yees may elect to contribute up to the maximum amount of tax deferred contribution allowed by the
AtheroGenics may make a discretionary contribution. During 2006, AtheroGenics matched 50% of
yees contributions, up to a maximum of 6% of the employees annual base compensation. AtheroGenics
butions to the plan for 2006, 2005 and 2004 aggregated $261,098, $237,652 and $204,094, respectively.
oGenics stock is not an eligible investment under this plan.

come Taxes

heroGenics income tax expense was $0 for years ended December 31, 2006, 2005 and 2004. The
ry factors causing income tax expense to be different than the federal statutory rates are as follows:

	December 31,		
	2006	2005	2004
es tax benefit at statutory	$ (22,889,606)	$ (28,068,471)	$ (23,660,339)
ive stock options	2,132,144		
ncome tax benefit net of l tax benefit	(2,416,408)	(3,269,151)	(2,783,569)
	9,695	(136,356)	571,433
al business credit	(2,663,331)	(2,965,400)	(2,247,414)
tion allowance	25,827,506	34,439,378	28,119,889
e tax expense	$	$	$

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December 31, 2006, AtheroGenics had net operating loss carryforwards and research and development carryforwards of $331,931,971 and $12,023,544, respectively, for income tax purposes, which both to expire in 2010. The significant components of the deferred tax assets are:

	December 31, 2006	2005
perating loss carryforwards	$ 125,480,818	$ 113,542,150
rch credits	12,023,544	9,360,213
red revenue	10,280,833	
red stock compensation	1,380,850	501,775
	462,546	396,947
deferred tax assets	149,628,591	123,801,085
tion allowance	(149,628,591)	(123,801,085)
eferred tax assets	$	$

cause of AtheroGenics lack of earnings history, the deferred tax assets have been fully offset by a ion allowance. The valuation allowance increased $25,827,506 and $36,009,472 in 2006 and 2005 as ws:

	December 31, 2006	2005
red tax valuation allowance at beginning of year	$ 123,801,085	$ 87,791,613
ge in cumulative tax differences	25,827,506	34,439,378
s tax benefit from disqualifying disposition of incentive stock ns		1,570,094
red tax valuation allowance at end of year	$ 149,628,591	$ 123,801,085

heroGenics net operating loss carryforwards and research and development credit carryforwards may be ct to certain IRC Section 382 and Section 383 limitations on annual utilization in the event of changes in ship. These limitations could significantly reduce the amount of the net operating loss carryforwards ble in the future. The utilization of the carryforwards is dependent upon the timing and extent of oGenics future profitability. The annual limitations combined with the expiration dates of the orwards may prevent the utilization of all of the net operating loss and research and development credit orwards if AtheroGenics does not attain sufficient profitability by the expiration dates of the orwards.

ommitments and Contingencies

June 19, 1998, AtheroGenics entered into a ten-year operating lease for office and laboratory space gh March 1, 2009. Monthly lease payments of approximately $89,400 began March 2, 1999, the date ancy commenced. These payments are subject to increases during each successive 12-month period on changes in the Consumer Price Index (CPI). Future increases in monthly lease payments due to ses in the CPI are considered to be contingent rentals, and, therefore, will be charged to expense over the term as they become payable. AtheroGenics may extend the lease term for two successive five-year s. AtheroGenics other operating lease obligations are not significant.

December 31, 2006, AtheroGenics minimum aggregate commitments under long-term, non-cancelable ing leases are as follows:

	$ 1,381,773
	1,237,098
	209,402
	1,755
after	
	$ 2,830,028

t rent expense under operating leases amounted to $1,351,190, $1,161,682 and $1,050,333 in 2006, 2005 004, respectively.

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March 2006, AtheroGenics and AstraZeneca agreed to purchase certain commercial manufacturing ment. The costs are shared equally between AtheroGenics and AstraZeneca, subject to a limit on oGenics portion, as part of the joint license and collaboration agreements that were signed in nber 2005. AtheroGenics expects that its portion of the cost of the equipment and the construction, ation and start-up costs related to the equipment will be approximately $9.0 million over the life of the t. Under the terms of the license agreement this amount may be reimbursed by AstraZeneca when n termination rights expire.

uarterly Results of Operations (Unaudited)

e following is a summary of the unaudited quarterly results of operations:

	Year Ended December 31, 2006			
	1st Quarter	2ndQuarter	3rd Quarter	4th Quarter
ues	$ 4,166,667	$ 6,250,000	$ 10,292,683	$ 10,965,495
ting loss	(15,801,288)	(13,369,049)	(14,625,330)	(20,757,940)
ss	(19,224,807)	(13,056,223)	(14,373,320)	(20,668,022)
ss per share data:				
and diluted	(0.49)	(0.33)	(0.36)	(0.52)

	Year Ended December 31, 2005			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
ting loss	$(17,975,888)	$(21,612,599)	$(22,541,263)	$(18,199,485)
ss	(18,631,557)	(22,205,379)	(23,057,352)	(18,660,039)
ss per share data:				
and diluted	(0.50)	(0.59)	(0.61)	(0.49)

cause of the method used in calculating per share data, the quarterly per share data will not necessarily the per share data as computed for the year.

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

ne.

9A. *Controls and Procedures*

nagement s annual report on internal control over financial reporting. Section 404 of the nes-Oxley Act of 2002 requires management to include in this Annual Report on Form 10-K a report on gement s assessment of the effectiveness of our internal control over financial reporting, as well as an tion report from our independent registered public accounting firm on management s assessment of the veness of our internal control over financial reporting. Management s annual report on internal control inancial reporting and the related attestation report from our independent registered public accounting re located in Item 8 of this Form 10-K and are incorporated herein by reference.

aluation of disclosure controls and procedures. Our chief executive officer and chief financial officer sponsible for establishing and maintaining disclosure controls and procedures (as defined in the ties Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for AtheroGenics. Our chief executive r and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures he end of the period covered by this annual report, have concluded that our disclosure controls and dures are effective.

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

9B. *Other Information*

ne.

PART III

10. *Directors, Executive Officers and Corporate Governance*

e have set forth information relating to the directors and executive officers and compliance with Section of the Securities Exchange Act of 1934 under the captions Nominees, Executive Officers and Directors, rd Meetings and Committees and Section 16(a) Beneficial Ownership Reporting Compliance, ctively, in our proxy statement for our 2007 annual meeting of shareholders to be held on May 17, 2007. e incorporating this information by reference in this Form 10-K. Our definitive proxy statement will be with the SEC no later than 120 days after December 31, 2006.

of Ethics

e have adopted a code of business conduct and ethics for directors, officers and employees, including our pal executive officer and principal financial officer, known as the AtheroGenics, Inc. Code of Business uct and Ethics. This is available on our website at http:// www.atherogenics.com or you may request a opy from:

oGenics, Inc.
ion: Investor Relations
Westside Parkway
retta, Georgia 30004
336-2500
www.investor@atherogenics.com

11. *Executive Compensation*

e have set forth information relating to executive compensation under the captions Director ensation, Executive Compensation, Employment Agreements and Compensation Committee Interlocks sider Participation in the proxy statement referred to in Item 10 above. We are incorporating this nation by reference in this Form 10-K.

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12. ***Security Ownership of Certain Beneficial Owners and Management and Related Shareholder rs***

e have set forth information relating to ownership of our common stock by certain persons and to our compensation plans under the captions Security Ownership of Certain Beneficial Owners and gement and Equity Compensation Plan Information, respectively, in the proxy statement referred to in 0 above. We are incorporating this information by reference in this Form 10-K.

13. ***Certain Relationships and Related Transactions, and Director Independence***

e have set forth information relating to existing or proposed relationships or transactions between us and n of our affiliates under the caption Certain Relationships and Related Transactions in the proxy ent referred to in Item 10 above. We are incorporating this information by reference in this Form 10-K.

14. ***Principal Accountant Fees and Services***

e have set forth information relating to our principal accountant fees and services under the caption cipal Accountant Fees and Services in the proxy statement referred to in Item 10 above. We are orating this information by reference in this Form 10-K.

PART IV

15. ***Exhibits and Financial Statement Schedules***

1) Financial Statements, filed as part of this report

Report of Independent Registered Public Accounting Firm on Internal Control

Report of Independent Registered Public Accounting Firm on Financial Statements

Balance Sheets as of December 31, 2006 and 2005 Statements of Operations for the years ended December 31, 2006, 2005 and 2004

Statements Shareholders (Deficit) Equity for the years ended December 31, 2006, 2005 and 2004

Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Financial Statements

2) Financial Statement Schedules

No financial statement schedules are provided, because the information called for is not required or is shown either in the financial statements or the notes thereto.

3) Listing of Exhibits

bit No.	Description
	Fourth Amended and Restated Articles of Incorporation of AtheroGenics, Inc. (filed as Exhibit 3.01 to Amendment No. 1 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2004 on April 6, 2005 and incorporated herein by reference).
	Third Amended and Restated Bylaws of AtheroGenics, Inc., as amended (filed as Exhibit 3.02 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
	Amendment No. 1 to Third Amended and Restated Bylaws of AtheroGenics, Inc. (filed as Exhibit 3.02 to AtheroGenics Current Report on Form 8-K on December 8, 2006 and

incorporated herein by reference).

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it No.	Description
	Form of Common Stock Certificate (filed as Exhibit 4.01 to Amendment No. 4 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on August 4, 2000 and incorporated herein by reference).
	Rights Agreement dated as of November 9, 2001 between AtheroGenics, Inc. and American Stock Transfer & Trust Company, as Rights Agent (filed as Exhibit 4.4 of AtheroGenics Form 8-K on November 19, 2001 and incorporated herein by reference).
	Indenture dated August 19, 2003 between AtheroGenics, Inc. and The Bank of New York Trust Company of Florida N.A., as Trustee (filed as Exhibit 4.1 to AtheroGenics Registration Statement on Form S-3, Registration No. 333-110160, on October 31, 2003 and incorporated herein by reference).
	Global 4 1/2% Convertible Note Due 2008 (filed as Exhibit 4.04 to Amendment No. 1 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2004 on April 6, 2005 and incorporated herein by reference).
	Indenture dated January 12, 2005 between AtheroGenics, Inc. and The Bank of New York Trust Company of Florida N.A., as Trustee, including the form of Global 1.50% Convertible Note Due 2012 filed as Exhibit A thereto (filed as Exhibit 4.5 to AtheroGenics Registration Statement on Form S-3, Registration No. 333-123895, on April 6, 2005 and incorporated herein by reference).
	Amended and Restated Master Rights Agreement dated October 31, 1995, as amended by First Amendment dated November 1, 1995; Second Amendment dated July 30, 1996; Third Amendment dated April 13, 1999; Fourth Amendment dated May 11, 1999; and Fifth Amendment dated August 30, 1999 (filed as Exhibit 4.02 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on February 25, 2000 and incorporated herein by reference).
+	Exclusive License Agreement dated July 17, 1998 between The Regents of the University of California and AtheroGenics, Inc. (filed as Exhibit 10.02 to Amendment No. 4 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on August 4, 2000 and incorporated herein by reference).
+	License Agreement dated January 11, 1995 between Emory University and AtheroGenics, Inc. (filed as Exhibit 10.03 to Amendment No. 2 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on July 13, 2000 and incorporated herein by reference).
+	Patent Purchase Agreement dated April 26, 1995 between AtheroGenics, Inc. and Sampath Parthasarathy, together with Services Agreement dated April 26, 1995 between AtheroGenics, Inc. and Sampath Parthasarathy (filed as Exhibit 10.04 to Amendment No. 2 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on July 13, 2000 and incorporated herein by reference).

+	Sponsored Research Agreement dated October 14, 1996 between Emory University and AtheroGenics, Inc. (filed as Exhibit 10.05 to Amendment No. 2 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on July 13, 2000 and incorporated herein by reference).
#	AtheroGenics, Inc. 1995 Stock Option Plan, together with form of nonqualified stock option agreement (filed as Exhibit 10.07 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on February 25, 2000 and incorporated herein by reference).
#	AtheroGenics, Inc. 1997 Equity Ownership Plan, as amended by Amendment No. 1 and Amendment No. 2 (filed as Exhibit 10.08 to Amendment No. 2 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on July 13, 2000 and incorporated herein by reference).
	Preferred Shares Purchase Warrant dated August 24, 1998 between AtheroGenics, Inc. and certain Lenders named therein (filed as Exhibit 10.09 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on February 25, 2000 and incorporated herein by reference).
	Series C Convertible Preferred Stock Purchase Warrants of AtheroGenics, Inc. (filed as Exhibit 10.10 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on February 25, 2000 and incorporated herein by reference).
	Promissory Note dated April 1, 1999 between Inhibitex, Inc. and AtheroGenics, Inc. (filed as Exhibit 10.11 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on February 25, 2000 and incorporated herein by reference).

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it No.	Description
++	Lease Agreement dated June 19, 1998 between Cousins Properties, Inc. and AtheroGenics, Inc. (filed as Exhibit 10.12 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-31140, on February 25, 2000 and incorporated herein by reference).
#	Employment Agreement dated March 1, 2001 between AtheroGenics, Inc. and Russell M. Medford (filed as Exhibit 10.14 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference).
	Amendment dated January 1, 2001 to Promissory Note dated April 1, 1999 between Inhibitex, Inc. and AtheroGenics, Inc. (filed as Exhibit 10.15 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2000, and incorporated herein by reference).
+	Exclusive License Agreement dated as of June 29, 2001 between AtheroGenics, Inc. and National Jewish Medical and Research Center (filed as Exhibit 10.17 to Amendment No. 1 to AtheroGenics Registration Statement on Form S-1, Registration No. 333-64228, on July 23, 2001 and incorporated herein by reference).
#	AtheroGenics, Inc. 2001 Equity Ownership Plan (filed as Appendix B to the proxy statement on Schedule 14A for AtheroGenics 2001 Annual Shareholders Meeting as filed on March 22, 2001 and incorporated herein by reference).
	Equipment Term Note dated March 6, 2002 between AtheroGenics, Inc. and Silicon Valley Bank (filed as Exhibit 10.20(b) to AtheroGenics Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 and incorporated herein by reference).
	Loan and Security Agreement dated March 6, 2002 between AtheroGenics, Inc. and Silicon Valley Bank (filed as Exhibit 10.20(c) to AtheroGenics Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 and incorporated herein by reference).
	First Loan Modification dated June 20, 2003 between AtheroGenics, Inc. and Silicon Valley Bank. (filed as Exhibit 10.23 to AtheroGenics Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
	Second Loan Modification dated August 13, 2003 between AtheroGenics, Inc. and Silicon Valley Bank (filed as Exhibit 10.25 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
	Third Loan Modification dated December 29, 2003 between AtheroGenics, Inc. and Silicon Valley Bank (filed as Exhibit 10.26 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
	Negative Pledge Agreement dated December 29, 2003 between AtheroGenics, Inc. and Silicon Valley Bank (filed as Exhibit 10.27 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).

#	Employment Agreement dated December 22, 2004 between AtheroGenics, Inc. and Mark P. Colonnese (filed as Exhibit 10.28 to AtheroGenics Form 8-K on December 22, 2004 and incorporated herein by reference).
#	Employment Agreement dated December 22, 2004 between AtheroGenics, Inc. and Martin A. Wasserman (filed as Exhibit 10.29 to AtheroGenics Form 8-K on December 22, 2004 and incorporated herein by reference).
#	Employment Agreement dated December 22, 2004 between AtheroGenics, Inc. and Robert A. D. Scott (filed as Exhibit 10.30 to AtheroGenics Form 8-K on December 22, 2004 and incorporated herein by reference).
#	Employment Agreement dated December 22, 2004 between AtheroGenics, Inc. and W. Charles Montgomery (filed as Exhibit 10.31 to AtheroGenics Form 8-K on December 22, 2004 and incorporated herein by reference).
#	AtheroGenics, Inc. 2004 Equity Ownership Plan (filed as Appendix B to the proxy statement on Schedule 14A for AtheroGenics 2004 Annual Shareholders Meeting as filed on March 26, 2004 and incorporated herein by reference).
#	AtheroGenics, Inc. 2004 Equity Ownership Plan form of incentive equity ownership agreement and form of directors nonqualified equity ownership agreement (filed as Exhibit 10.33 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2004 on March 16, 2005 and incorporated herein by reference).

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it No.	Description
#	Summary of non-employee director compensation (filed as the first paragraph under the caption Director Compensation in the proxy statement on Schedule 14A for AtheroGenics 2005 Annual Meeting of Shareholders as filed with the SEC on March 28, 2005 and incorporated herein by reference).
#	Summary of non-employee directors compensation and 2005 executive officers target cash incentive (filed under Item 1.01 of AtheroGenics, Inc. Form 8-K on April 29, 2005 and incorporated herein by reference).
#	Employment Agreement dated May 31, 2005 between AtheroGenics, Inc. and Joseph M. Gaynor, Jr. (filed as Exhibit 10.1 to AtheroGenics Current on Form 8-K on July 7, 2005 and incorporated herein by reference).
#	Transition Agreement dated June 22, 2005 between AtheroGenics, Inc. and Martin A. Wasserman (filed as Exhibit 10.1 to AtheroGenics Current Report on Form 8-K on July 22, 2005 and incorporated herein by reference).
+	First Amendment dated August 3, 2005 to License Agreement dated January 11, 1995 between AtheroGenics, Inc. and Emory University (filed as Exhibit 10.1 to AtheroGenics Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 and incorporated herein by reference).
	Registration Rights Agreement dated January 12, 2005 among AtheroGenics, Inc., as Issuer, and Morgan Stanley & Co. Incorporated, Lehman Brothers, Inc., JPMorgan Securities, Inc. and Lazard Freres & Co., as Initial Purchasers (filed as Exhibit 99.1 to AtheroGenics Current Report on Form 8-K on January 13, 2005 and incorporated herein by reference).
+	Commercial Supply Agreement for Production of AGI-1067 and Probucol between The Dow Chemical Company and AtheroGenics, Inc., dated October 6, 2005 (filed as Exhibit 10.34 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
+	License and Collaboration Agreement between AtheroGenics, Inc and IPR Pharmaceuticals, LP, dated December 22, 2005 (filed as Exhibit 10.35 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
+	Co-Promotion Agreement by and between AstraZeneca Pharmaceuticals LP and AtheroGenics, Inc., dated as of December 22, 2005 (filed as Exhibit 10.36 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
+	Transition Services Agreement, by and between IPR Pharmaceuticals, LP and AtheroGenics, Inc., dated December 22, 2005 (filed as Exhibit 10.37 to AtheroGenics Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated

herein by reference).

AtheroGenics, Inc. 2004 Equity Ownership Plan form of nonqualified equity ownership agreement (filed as Exhibit 10.02 to AtheroGenics Current Report on Form 8-K on March 10, 2006 and incorporated herein by reference).

Form of Indemnification Agreement dated July 5, 2006 (filed as Exhibit 10.1 to AtheroGenics Current Report on Form 8-K on July 6, 2006 and incorporated herein by reference).

Employment Agreement dated September 25, 2006 between AtheroGenics, Inc. and Russell M. Medford (filed as Exhibit 10.1 to AtheroGenics Current Report on Form 8-K on September 29, 2006 and incorporated herein by reference).

Employment Agreement dated September 25, 2006 between AtheroGenics, Inc. and Mark P. Colonnese (filed as Exhibit 10.2 to AtheroGenics Current Report on Form 8-K on September 29, 2006 and incorporated herein by reference).

Employment Agreement dated September 25, 2006 between AtheroGenics, Inc. and Robert A.D. Scott (filed as Exhibit 10.3 to AtheroGenics Current Report on Form 8-K on September 29, 2006 and incorporated herein by reference).

Employment Agreement dated September 25, 2006 between AtheroGenics, Inc. and W. Charles Montgomery (filed as Exhibit 10.4 to AtheroGenics Current Report on Form 8-K on September 29, 2006 and incorporated herein by reference).

Employment Agreement dated September 25, 2006 between AtheroGenics, Inc. and Joseph M. Gaynor, Jr. (filed as Exhibit 10.5 to AtheroGenics Current Report on Form 8-K on September 29, 2006 and incorporated herein by reference).

* Consent of Ernst & Young LLP.

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it No.	Description
*	Powers of Attorney.
	Certifications of Chief Executive Officer under Rule 13a-14(a).
	Certifications of Chief Financial Officer under Rule 13a-14(a).
	Certifications of Chief Executive Officer and Chief Financial Officer under Section 1350.

iled herewith.

iled as the xhibit of the ame number ith theroGenics egistration atement on orm S-1, egistration o. 333-31140, eclared ffective by the EC on ugust 8, 2000, nd corporated erein by eference.

ertain onfidential nformation ontained in this ocument has een omitted nd filed eparately with he Commission ursuant to a equest for onfidential eatment under ule 406 of the ecurities Act f 1933, as mended.

Ve agree to urnish upplementally o the ommission a opy of any mitted chedule or xhibit to this greement upon equest by the ommission.	
Ianagement ontract or ompensatory lan or rrangement.	

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SIGNATURES

rsuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant
ly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on
7, 2007.

ATHEROGENICS, INC.

By: /s/ RUSSELL M. MEDFORD
Russell M. Medford, M.D., Ph.D.
President and Chief Executive Officer

rsuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by
llowing persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
ipal Executive Officer:		
/s/ RUSSELL M. MEDFORD **Russell M. Medford**	President and Chief Executive Officer, Director	March 7, 2007
ipal Financial and Principal unting Officer:		
/s/ MARK P. COLONNESE **Mark P. Colonnese**	Executive Vice President, Commercial Operations and Chief Financial Officer	March 7, 2007
/s/ CHARLES A. DEIGNAN **Charles A. Deignan**	Vice President, Finance and Administration and Principal Accounting Officer	March 7, 2007
* **Michael A. Henos**	Director	March 7, 2007
* **R. Wayne Alexander**	Director	March 7, 2007
* **Samuel L. Barker**	Director	March 7, 2007
* **David Bearman**	Director	March 7, 2007

*	Director	March 7, 2007
Vaughn D. Bryson		
*	Director	March 7, 2007
T. Forcht Dagi		
*	Director	March 7, 2007
Margaret E. Grayson		
*	Director	March 7, 2007
Arthur M. Pappas		
*	Director	March 7, 2007
William A. Scott		

/s/ JOSEPH M. GAYNOR, JR.

Joseph M. Gaynor, Jr.
Attorney-in-Fact