EPIX Pharmaceuticals, Inc.
Form S-3
November 14, 2006

Table of Contents

As filed with the Securities and Exchange Commission on November 14, 2006
Registration No. 333-_____

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

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

EPIX Pharmaceuticals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**04-3030815**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4 Maguire Road
Lexington, Massachusetts 02421
(781) 761-7600
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Michael G. Kauffman, M.D., Ph.D.
Chief Executive Officer
EPIX Pharmaceuticals, Inc.
4 Maguire Road
Lexington, Massachusetts 02421
(781) 761-7600
(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:

Edward A. King, Esq.
Goodwin Procter LLP
Exchange Place
Boston, Massachusetts 02109
(617) 570-1000

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the

following box: o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box: o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (2)	Amount of registration fee
Common Stock, $0.01 par value per share	7,722,954	$ 4.21	$32,513,636.34	$3,478.96

(1) Consists of 7,722,954 issued shares of common stock.

(2) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices for the common stock of EPIX Pharmaceuticals, Inc. on November 13, 2006, as reported by The Nasdaq Global Market.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 14, 2006

PROSPECTUS

EPIX PHARMACEUTICALS, INC.
7,722,954 SHARES OF COMMON STOCK

We issued 13,621,727 shares of our common stock in a merger with Predix Pharmaceuticals Holdings, Inc. (Predix) which closed on August 16, 2006. This prospectus relates to the resale from time to time of up to a total of 7,722,954 shares of our common stock by certain former affiliates of Predix and the chairman of our board of directors, the selling stockholders, described in the section entitled Selling Stockholders on page 41 of this prospectus.

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

Our common stock is listed on The Nasdaq Global Market under the symbol EPIX. On November 13, 2006, the last reported sale price of our common stock was $4.28 per share. Our principal executive offices are located at 4 Maguire Road, Lexington, Massachusetts 02421, and our telephone number is (781) 761-7600.

You should consider carefully the risks that we have described in Risk Factors beginning on page 6 before deciding whether to invest in our common stock.

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

THE DATE OF THIS PROSPECTUS IS NOVEMBER 14, 2006

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS

You should read this prospectus and the information and documents incorporated by reference carefully. Such documents contain important information you should consider when making your investment decision. See Incorporation of Certain Documents by Reference on page 45. You should rely only on the information provided in this prospectus or documents incorporated by reference into this prospectus. We have not authorized anyone to provide you with different information. The selling stockholders are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions in which offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

In this prospectus, we refer to EPIX Pharmaceuticals, Inc. as EPIX. This prospectus contains trademarks, trade names, service marks and service names of EPIX and other companies.

Table of Contents

SUMMARY

The following is only a summary. We urge you to read this entire prospectus, including the more detailed consolidated financial statements, notes to the consolidated financial statements and other information incorporated by reference from our other filings with the SEC. Investing in our common stock involves risks. Therefore, please carefully consider the information provided under the heading Risk Factors beginning on page 6.

On August 16, 2006, we completed our acquisition of Predix Pharmaceuticals Holdings, Inc. (Predix) pursuant to the terms of that certain Agreement and Plan of Merger, dated as of April 3, 2006 as amended on July 10, 2006, by and among us, EPIX Delaware, Inc., our wholly-owned subsidiary, and Predix, as amended. Pursuant to the merger agreement, Predix merged with and into EPIX Delaware, Inc. and became a wholly-owned subsidiary of us. The merger with Predix was primarily a stock transaction valued at approximately $125 million, including the assumption of net debt at closing. As part of the merger, we also assumed all outstanding options and warrants to purchase capital stock of Predix. The purchase price includes a $35 million payment to the holders of Predix stock, options and warrants payable in cash, stock or a combination of both based on Predix having achieved a certain strategic milestone. Pursuant to the terms of the merger agreement, $20 million of the milestone was paid in cash on October 29, 2006. The remaining $15 million of the milestone payment will be paid in shares of EPIX common stock on October 29, 2007, except to the extent that such shares would exceed 49.99% of outstanding shares immediately after such milestone payment when combined with all shares of EPIX common stock issued in the merger and issuable upon exercise of all Predix options and warrants that we assumed in the merger. The portion of the remaining milestone payment that can not be paid in EPIX common stock will be paid in cash with interest accrued at a rate of 10%. In addition, in connection with the merger, we effected a 1-for-1.5 reverse stock split of our outstanding common stock.

Following the merger, EPIX is a biopharmaceutical company focused on discovering, developing and commercializing novel pharmaceutical products through the use of proprietary technologies to better diagnose, treat and manage patients. We have a blood-pool imaging agent (Vasovist) approved in the European Union, Canada, Iceland, Norway, Switzerland and Australia, and five internally-discovered therapeutic and imaging drug candidates currently in clinical trials. Vasovist is currently being marketed in Europe. These drug candidates are targeting conditions such as depression, Alzheimer s disease, cardiovascular disease and obesity. We also have collaborations with leading organizations, including Amgen, Cystic Fibrosis Foundation Therapeutics, and Schering AG (Germany).

The focus of our therapeutic drug discovery and development efforts is on the two classes of drug targets known as G-protein Coupled Receptors (GPCRs) and ion channels. GPCRs and ion channels are classes of proteins embedded in the surface membrane of all cells and are responsible for mediating much of the biological signaling at the cellular level. We believe that our proprietary drug discovery technology and approach addresses many of the inefficiencies associated with traditional GPCR and ion channel-targeted drug discovery. By integrating computer-based, or *in silico*, technology with in-house medicinal chemistry, we believe that we can rapidly identify and optimize highly selective drug candidates. We focus on GPCR and ion channel drug targets whose role in disease has already been demonstrated in clinical trials or in preclinical studies. In each of our four clinical-stage therapeutic programs, we used our drug discovery technology and approach to optimize a lead compound into a clinical drug candidate in less than ten months, synthesizing fewer than 80 compounds per program. We moved each of these drug candidates into clinical trials in less than 18 months from lead identification. We believe our drug discovery technology and approach enables us to efficiently and cost-effectively discover and develop GPCR and ion channel-targeted drugs.

In the merger, Predix stockholders received .826702 shares of our common stock for each share of Predix capital stock for an aggregate of approximately 13,621,452 shares of our common stock, or approximately 47% of the outstanding shares of our common stock, after giving effect to the merger and to our 1-for-1.5 reverse stock split. The shares of our common stock issued to the Predix stockholders were registered with the Securities and Exchange Commission on a Registration Statement on Form S-4 (Reg. No. 333-133513). Approximately 29,152,220 shares of our common stock were outstanding immediately after the merger and giving effect to the 1-for-1.5 reverse stock split. The impact of the 1-for-1.5 reverse stock split on our previously filed financial statements included in our Annual Report of Form 10-K for the year ended December 31, 2005, as incorporated by reference to this Registration Statement, is as follows:

Our previously filed selected financial data:	**December 31, 2005**	**December 31, 2004**	**December 31, 2003**
Shares outstanding at year-end	23,284,810	23,190,154	22,318,642
Basic and diluted net loss per share	$ (1.05)	$ (0.89)	$ (1.09)
Weighted average common shares used in computing basic and diluted net loss per share	23,258,187	22,888,673	19,055,698

Table of Contents

Our adjusted selected financial data for a 1-for-1.5 reverse stock split made effective August 16, 2006:	**December 31, 2005**	**December 31, 2004**	**December 31, 2003**
Shares outstanding at year-end	15,523,206	15,460,102	14,879,094
Basic and diluted net loss per share	$ (1.57)	$ (1.34)	$ (1.64)
Weighted average common shares used in computing basic and diluted net loss per share	15,505,458	15,259,115	12,703,798

Table of Contents

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain statements with respect to the Company which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. and of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Words such as anticipate, believes, budget, continue, could, estimate, expect, forecast, intend, may, plan, potential, predicts, pro similar expressions are intended to identify such forward-looking statements. Forward-looking statements in this prospectus include, without limitation, statements regarding benefits of the proposed merger and future expectations concerning available cash and cash equivalents of the combined company, the expected timing of the conclusion of clinical trials, the timing of regulatory filings, and other matters that involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to differ materially from results expressed in or implied by this prospectus. Such risk factors include, among others:

difficulties encountered in integrating merged businesses;

the competitive environment in the life sciences industry;

whether we can successfully develop new products and the degree to which these gain market acceptance;

the success and timing of our pre-clinical studies and clinical trials;

our ability to obtain and maintain regulatory approval for our product candidates and the timing of such approvals;

our ability to research, develop and commercialize our product candidates;

regulatory developments in the United States and foreign countries; and

our ability to obtain and maintain intellectual property protection for our product candidates.

Actual results may differ materially from those contained in the forward-looking statements in this prospectus. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. All prior and subsequent written and oral forward-looking statements concerning the merger and other matters addressed in this prospectus and attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements included or referred to in this section. Except to the extent required by applicable law or regulation, the Company does not undertake any obligation to republish revised forward-looking statements to reflect events and circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares by the selling stockholders.

Table of Contents

RISK FACTORS

The following factors should be considered carefully in evaluating whether to purchase shares of EPIX common stock. These factors should be considered in conjunction with any other information included or incorporated by reference herein, including in conjunction with forward-looking statements made herein. See Where You Can Find More Information on page 45.

Risks Related to our Business

Integrating our organization with Predix may divert management s attention away from our operations and, if we are unsuccessful in integrating our companies, we may not be able to operate efficiently after the merger.

Achieving the benefits of our merger with Predix will depend in part on the successful integration of our operations and personnel in a timely and efficient manner. The integration process requires coordination of different development, regulatory, administrative and commercial teams, and involves the integration of systems, applications, policies, procedures, business processes and operations. This may be difficult and unpredictable because of possible cultural conflicts and different opinions on scientific and regulatory matters. Problems in integrating financial reporting could result in control issues, including unplanned costs. Delays in successfully integrating and managing employee benefits could lead to dissatisfaction and employee turnover. In addition, the combination of our organizations may result in greater competition for resources and elimination of research and development programs that might otherwise be successfully completed, especially in light of the difference in our current imaging business and therapeutic business. If we cannot successfully integrate our operations and personnel, we may not realize the expected benefits of the merger. Moreover, the diversion of management s attention and any difficulties encountered in the transition and integration process could result in delays in the companies clinical trial programs and could otherwise harm our business, financial condition and operating results.

We anticipate future losses and may never become profitable.

Our future financial results are uncertain. We have experienced significant losses since we commenced operations in 1992. Our accumulated net losses as of September 30, 2006 were approximately $320.4 million. These losses have primarily resulted from expenses associated with our research and development activities, including pre-clinical studies and clinical trials, acquired in-process research and development from the merger with Predix and general and administrative expenses. We anticipate that our research and development expenses will remain significant in the future and we expect to incur losses over at least the next several years as we continue our research and development efforts, pre-clinical testing and clinical trials. In particular, we believe that we will be required to conduct additional clinical trials to obtain approval from the U.S. Food and Drug Administration (FDA) for any of our product candidates, including Vasovist, which trials would be expensive and which could contribute to our continuing to incur losses.

In addition, as a result of our merger with Predix, our expenses may increase significantly as a result of the addition of our newly acquired therapeutic research and development and commercialization efforts. We expect to incur significant costs integrating our operations, product candidates and personnel with those of Predix, which cannot be estimated accurately at this time. These costs may include costs for:

conversion of information systems;

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

reorganization of facilities; and

relocation or disposition of excess equipment.

As a result, we cannot predict when we will become profitable, if at all, and if we do, we may not remain profitable for any substantial period of time. If we fail to achieve profitability within the timeframe expected by investors our results of operations, the market price of our common stock may decline and consequently our business may not be sustainable.

We have never had a commercially available product in the United States and we may never succeed in developing marketable products.

We have never had any product candidates receive regulatory approval for commercial sale in the United States and do not expect to have any commercial therapeutic products available in the United States for at least the next several years, if at all. In September 2006, results from our pivotal Phase 3 clinical trial of our PRX-00023 product candidate for generalized anxiety disorder demonstrated that PRX-00023 did not achieve a statistically significant improvement over placebo for the primary endpoint with respect to generalized anxiety disorder. Prior to obtaining results from this trial, PRX-00023 was our most advanced therapeutic drug candidate. Based on these trial results, however, we have discontinued our development efforts with respect to PRX-00023 in anxiety and currently are focusing our development efforts for this product candidate in depression. PRX-00023 has not been tested in patients

with a primary diagnosis of major depression and will require significant further additional clinical testing for that indication. In addition, although our Vasovist imaging product has been approved for commercial sale in European Union, Australia, Switzerland, Iceland, Norway and Canada, and is currently being marketed in Europe by Schering AG (Germany), we have not obtained approval of Vasovist in the United States and do not expect any significant income or royalties as a result of sales of Vasovist for the foreseeable future. In August 2006, the FDA denied our formal appeal to approve Vasovist and suggested that that the safest path forward would be to conduct two new clinical trials for Vasovist. Accordingly, the approval of Vasovist by the FDA is subject to significant uncertainty and we may never obtain regulatory approval to market Vasovist in the United States.

In addition to PRX-00023 and Vasovist, we have four other clinical-stage drug candidates in the United States: PRX-08066 for the treatment of two types of pulmonary hypertension, which are pulmonary hypertension associated with chronic obstructive pulmonary disease, in which we initiated a Phase 2 clinical trial in August 2006, and pulmonary arterial hypertension; PRX-03140 for the treatment of Alzheimer s disease, which is expected to enter Phase 2 clinical trials in the fourth quarter of 2006; PRX-07034 for the treatment of obesity and cognitive impairment, which commenced Phase 1 clinical trials in June 2006; and EP-2104R, a contrast agent designed to enable the identification of blood clots using MRI, which completed a Phase 2a clinical trial in June 2006. Prior to the initiation of our Phase 2 clinical trial, PRX-08066 had never been tested in patients with pulmonary hypertension associated with chronic obstructive pulmonary disease and has never been tested in patients with primary pulmonary arterial hypertension. PRX-07034 has never been tested in patients with obesity or cognitive impairment. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials even after achieving promising results in early-stage clinical development. For example, Sanofi-Aventis recently discontinued the development of its product candidate for the treatment of Alzheimer s disease designed to target the 5-HT4 protein receptor due to lack of efficacy. This compound is believed to have the same mechanism of action as PRX-03140, was more advanced in clinical development and was more potent in *in vitro* assays. Accordingly, the results from the completed and ongoing studies and trials for our product candidates may not be predictive of the results we may obtain in later-stage clinical trials. In addition, Schering declined to exercise an option to exclusively license EP-2104R and, as a result, there is considerable uncertainty regarding the future clinical development plan of EP-2104R and depends upon many factors, including our ability to enter into a collaboration to continue the development of EP-2104R. If we are unable to find a new collaborative partner, we may bear the expenses of further clinical development ourselves, which expenses would be significant. If we are unable to develop one or more marketable products in the United States, or elsewhere, our results of operations, business and future prospects would be materially harmed.

If we are unable to obtain required regulatory approval of our product candidates, we will be unable to market and sell our product candidates and our business will be materially harmed.

Our existing product candidates and any other product candidates we may discover or acquire and seek to commercialize are subject to extensive regulation by the FDA and similar regulatory agencies in other countries relating to development, clinical trials, manufacturing and commercialization. In the United States and in many foreign jurisdictions, rigorous pre-clinical testing and clinical trials and an extensive regulatory review process must be successfully completed before a new product candidate can be sold. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. The time required to obtain approval by the FDA is unpredictable but typically exceeds five years following the commencement of clinical trials, depending upon many factors, including the complexity of the product candidate. We initiated clinical trials for PRX-08066, PRX-00023, PRX-03140 and PRX-07034 in May 2005, February 2004, December 2004 and June 2006, respectively, and thus far, these therapeutic product candidates have been studied in only a small number of patients. Early-stage clinical trials in small numbers of patients are often not predictive of results in later-stage clinical trials with a larger and more diverse patient population. Even product candidates with favorable results in late-stage pivotal clinical trials may fail to get approved for commercialization for many reasons, including:

- Our failure to demonstrate to the satisfaction of the FDA or comparable foreign regulatory authorities that a product candidate is safe and effective for a particular indication;

Our inability to demonstrate that a product candidate s benefits outweigh its risks;

Our inability to demonstrate that the product candidate presents a significant advantage over existing therapies;

the FDA s or comparable foreign regulatory authorities disagreement with the manner in which we and our collaborators interpret the data from pre-clinical studies or clinical trials;

the FDA s or comparable foreign regulatory authorities failure to approve our manufacturing processes or facilities or the processes or facilities of our collaborators; or

a change in the approval policies or regulations of the FDA or comparable foreign regulatory authorities.

In addition, although Vasovist has been approved for use in various foreign countries, Vasovist has not been approved in the United States. In connection with a new drug application, or NDA, that we submitted for Vasovist in December 2003, we received an approvable letter from the FDA in January 2005 in which the FDA requested additional clinical trials prior to approval. In May 2005, we submitted a response to the FDA approvable letter, which was accepted by the FDA as a complete response in June 2005. In

Table of Contents

November 2005, the FDA provided us with a second approvable letter. Although no safety or manufacturing issues were raised in the second approvable letter, the second approvable letter indicated that at least one additional clinical trial and a re-read of images obtained in certain previously completed Phase 3 trials will be necessary before the FDA could approve Vasovist. We believe that these trials would require a substantial period of time to complete. We have had three meetings with the FDA since receiving the second approvable letter to discuss the path forward for Vasovist in the United States. After considering the parameters of the additional clinical trials requested by the FDA, we filed a formal appeal with the FDA asking the FDA to approve Vasovist and to utilize an advisory committee as part of the appeal process. In August 2006, the FDA denied our appeal and suggested that that the safest path forward would be to conduct two new clinical trials for Vasovist. We are currently evaluating several options with respect to next steps for Vasovist, including the option to appeal the FDA s decision. The approval, timeliness of approval or labeling of Vasovist are subject to significant uncertainties related to a number of factors, including the process of reaching agreement with the FDA on the clinical data and on any clinical trial protocol required for regulatory approval of Vasovist, a re-read, or reanalysis, of images obtained from completed Phase 3 trials by a new group of radiologists, the timing and process of conducting any clinical trials that may be ultimately required if the appeal process ultimately ends in denial of our suggested path forward, obtaining the desired outcomes of any required clinical trials and the FDA s review process and conclusions regarding any additional Vasovist regulatory submissions. We cannot assure you that the appeal process, including any appeal of the FDA s August 2006 decision we may undertake, will be successful or that we will be able to reach agreement with the FDA on the design or clinical endpoints required for additional clinical trials or re-read of images from the completed Phase 3 trials that may be required if the appeal process ultimately ends in the denial of our suggested path forward. Further, we cannot assure you that any such agreed upon clinical trials will be feasible for us to conduct or whether such trials will be completed in a commercially reasonable timeframe, if at all. Any further clinical trials that are required could take several years to complete. If the FDA does not approve Vasovist, then we will not receive revenues based on sales of Vasovist in the United States. Even if ultimately approved, we do not expect revenues from the commercial sales of any of our product candidates, other than Vasovist, for at least several years.

The relevant regulatory authorities may not approve any of our applications for marketing authorization relating to any of our product candidates, or additional applications for or variations to marketing authorizations that we may make in the future as to these or other product candidates. Among other things, we have had only limited experience in preparing applications and obtaining regulatory approvals. If approval is granted, it may be subject to limitations on the indicated uses for which the product candidate may be marketed or contain requirements for costly post-marketing testing and surveillance to monitor safety or efficacy of the product candidate. If approval of an application to market product candidates is not granted on a timely basis or at all, or if we are unable to maintain our approval, our business may be materially harmed. It is possible that none of our product candidates or any other product candidates we may seek to develop in the future will ever obtain the appropriate regulatory approvals necessary for us to begin selling them, which would materially harm our business.

Our clinical trials may not yield results that will enable us to obtain regulatory approval for our product candidates.

We will only receive regulatory approval to commercialize a product candidate if we can demonstrate to the satisfaction of the FDA or the applicable foreign regulatory agency, in well-designed and conducted clinical trials, that the product candidate is safe and effective and otherwise meets the appropriate standards required for approval for a particular indication. Clinical trials are lengthy, complex and extremely expensive processes with uncertain results. For example, results from our recently completed Phase 3 clinical trial of PRX-00023 in generalized anxiety disorder, which was designed to evaluate the efficacy of PRX-00023 as measured by the change from baseline in the Hamilton Rating Scale for Anxiety compared to placebo, demonstrated that PRX-00023 did not achieve a statistically significant improvement over placebo for the primary endpoint with respect to generalized anxiety disorder. Based on these results, we have discontinued our development efforts of PRX-00023 in anxiety. We have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approvals for our product candidates, including filing and prosecuting the applications necessary to gain approval by the FDA. Our NDA for Vasovist has not been, and may never be, approved by the FDA and we have not submitted an NDA to the FDA for any of our

other product candidates. This limited experience may result in longer regulatory processes in connection with our efforts to obtain approval of our product candidates. With respect to both our current product candidates in human clinical trials and our research product candidates which may be suitable for testing in human clinical trials at some point in the future, we face risks including that:

- the product candidate may not prove to be safe and efficacious;
- the dosage form of the product candidate may not deliver reproducible amounts of product to patients;
- patients may die or suffer other adverse effects for reasons that may or may not be related to the product candidate being tested;
- the results of later-stage clinical trials may not confirm the positive results of earlier trials;
- the results may not meet the level of statistical significance required by the FDA or other regulatory agencies for approval; and
- the FDA or other regulatory agencies may require additional or expanded trials.

Table of Contents

Of the large number of product candidates in development, only a small percentage result in the submission of an NDA to the FDA and even fewer are approved for commercialization. For example, we have received two approvable letters from the FDA and have had three meetings with the FDA to discuss the path forward for Vasovist in the United States and we have filed a formal appeal of the FDA s decision not to approve Vasovist without data from additional clinical trials. In August 2006, the FDA denied our appeal and suggested that that the safest path forward would be to conduct two new clinical trials for Vasovist. We are currently evaluating several options with respect to next steps for Vasovist, including the option to appeal the FDA s decision. We cannot predict whether the entire appeals process or additional trials would be completed timely or successfully. If we fail to demonstrate the safety and efficacy of our product candidates, we will not be able to obtain the required regulatory approvals to commercialize these product candidates. The results from pre-clinical testing of a product candidate that is under development may not be predictive of results that will be obtained in human clinical trials. In addition, the results of early human clinical trials may not be predictive of results that will be obtained in larger scale, advanced-stage clinical trials. Our current product candidates and any other product candidates we may seek to develop in the future may never complete the clinical testing necessary to obtain the appropriate regulatory approvals for us to begin selling them.

If clinical trials for our product candidates are prolonged or delayed, we may be unable to commercialize our product candidates on a timely basis, which would require us to incur additional costs and delay our receipt of any revenue from potential product sales.

We may encounter problems with our completed, ongoing or planned clinical trials for our product candidates that will cause us or any regulatory authority to delay or suspend those clinical trials or delay the analysis of data derived from them. A number of events, including any of the following, could delay the completion of our ongoing and planned clinical trials for our product candidates and negatively impact our ability to obtain regulatory approval for, and to enter into collaborations, market and/or sell, a particular product candidate, including our current clinical-stage product candidates:

- conditions imposed on us by the FDA or any foreign regulatory authority regarding the scope or design of our clinical trials;
- delays in obtaining, or our inability to obtain, required approvals from institutional review boards or other reviewing entities at clinical sites selected for participation in our clinical trials;
- delay in developing a clinical dosage form, insufficient supply or deficient quality of our product candidates or other materials necessary to conduct our clinical trials;
- negative or inconclusive results from clinical trials, or results that are inconsistent with earlier results, that necessitate additional clinical study;
- serious and/or unexpected product-related side effects experienced by subjects in clinical trials; or
- failure of our third-party contractors or our investigators to comply with regulatory requirements or otherwise meet their contractual obligations to us in a timely manner.

Regulatory authorities, clinical investigators, institutional review boards, data safety monitoring boards and the hospitals at which our clinical trials are conducted all have the power to stop our clinical trials prior to completion. In addition, the number and complexity of clinical trials needed to achieve regulatory approval for our therapeutic drug candidates, including but not limited to PRX-00023, our product candidate for the treatment of depression, and PRX-03140, our product candidate for the treatment of Alzheimer s disease, could be significant. Achieving primary efficacy endpoints in depression and anxiety trials is difficult due to the significant placebo effect commonly observed in trials in these patient populations. For example, results from our recently completed Phase 3 clinical trial of PRX-00023 demonstrated that the product candidate did not achieve a statistically significant improvement over placebo for the primary endpoint with respect to generalized anxiety disorder. Based on these results, we have discontinued our development efforts with respect to PRX-00023 in anxiety and expect to focus our efforts with

respect to PRX-00023 in depression. In addition, we must also submit the results of a two-year carcinogenicity study of PRX-00023 prior to its approval. We have not yet initiated this study and intend to conduct this study prior to submitting an NDA to the FDA. If the clinical development of PRX-00023 is delayed as a result of these matters, additional requirements set forth by the FDA, including requirements related to confirming the correct dose for PRX-00023, or otherwise, the time and cost of the development of PRX-00023 could increase significantly.

Our clinical trials for our product candidates may not begin as planned, may need to be restructured, and may not be completed on schedule, if at all. For example, in September 2001, after discussions with the FDA, we expanded our initial target indication for Vasovist from one specific body region, the aortoiliac region, to a broader indication that included the entire body s vascular system, except for the heart. This expansion required us to add two new clinical trials to our then existing Phase 3 clinical trial program. This change to the Phase 3 clinical trial program and the associated delay in the startup of new clinical centers resulted in an approximate 15-month delay in our NDA submission and an increase in costs associated with the program. In addition, because Schering AG decided not to exercise its option to exclusively license EP-2104R, which recently completed a Phase 2a clinical trial, we intend to pursue a collaboration for the continued development of EP-2104R with other potential partners. If we are unable to find a new collaborative partner, we will discontinue further clinical development of EP-2104R. Delays in clinical trials may result in increased development costs for our product candidates. In addition, if our clinical trials for our product candidates are delayed, our

Table of Contents

competitors may be able to bring product candidates to market before we do and the commercial viability of our product candidates could be significantly reduced.

If we encounter difficulties enrolling subjects in our clinical trials for our product candidates, or subjects drop out of trials in progress for our product candidates, our trials could be delayed or otherwise adversely affected.

The timing of completion of clinical trials is dependent in part upon the rate of enrollment of patients. Patient accrual is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the existence of competitive clinical trials, and the availability of alternative treatments. Delays in planned patient enrollment may result in increased costs and prolonged clinical development. In addition, patients may withdraw from a clinical trial for a variety of reasons. If we fail to accrue and maintain the number of patients into one of our clinical trials for which the clinical trial was designed, the statistical power of that clinical trial may be reduced which would make it harder to demonstrate that the product candidates being tested in such clinical trial are safe and effective. We may not be able to enroll a sufficient number of qualified patients in a timely or cost-effective manner. For example, we experienced difficulty in enrolling healthy elderly volunteers in our Phase 1 clinical trial for PRX-03140. Any future delays in patient enrollment could result in increased costs and longer development times. Enrollment of patients in our clinical trials for our product candidates is affected by many factors, including:

- the limited size of the patient population and the availability of commercial products for certain target indications, including pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease;
- the nature and design of the trial protocol;
- the proximity of patients to clinical sites;
- the availability of other effective treatments for the relevant disease (whether approved or experimental);
- the eligibility criteria for enrollment in our clinical trials;
- perceived risks and benefits of the product candidate under study; and
- competing studies or trials.

In addition, the FDA could require us to conduct clinical trials with a larger number of subjects than we have projected for any of our product candidates. If we have difficulty enrolling or retaining a sufficient number of patients to participate and complete our clinical trials for our product candidates as planned, we may need to delay or terminate ongoing or planned clinical trials. Delays in enrolling patients in these clinical trials or the withdrawal of subjects enrolled in these clinical trials would adversely affect our ability to develop and seek approval for our product candidates, could delay or eliminate our ability to generate product candidates and revenue and could impose significant additional costs on us.

Our therapeutic product candidates are currently unformulated.

All of our therapeutic product candidates, including PRX-08066, PRX-00023, PRX-03140 and PRX-07034, are currently unformulated. The lack of an optimized and commercially-viable formulation during clinical trials may have a significant impact in the overall development and commercialization of these therapeutic product candidates, including:

- the current dosage may not provide reproducible amounts of product;
- the pharmaceutical development of a commercially viable formulation may add significant cost and time to our clinical development programs for therapeutics;

additional trials may be required if the new formulation is not bioequivalent to formulations already used in clinical trials;

future clinical trials may be delayed in order to identify, develop, optimize, manufacture and certify a commercially viable formulation; and

regulatory filings, and/or commercial launch may be delayed due to the lack of a commercial process for cGMP manufacturing of the new formulation.

The occurrence of any of the foregoing could materially harm our business.

Failure to comply with foreign regulatory requirements governing human clinical trials and marketing approval for our product candidates could prevent us from selling our product candidates in foreign markets, which may adversely affect our operating results and financial condition.

The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement for marketing our product candidates outside the United States vary greatly from country to country and may require additional testing. Although the use of Vasovist has been approved in the European Union, as well as Canada, Iceland, Norway, Switzerland and Australia, we have no

experience in obtaining foreign regulatory approvals for our other product candidates. The time required to obtain approvals outside the United States may differ from that required to obtain FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other countries or by the FDA. Failure to comply with these regulatory requirements or obtain required approvals could impair our ability to develop foreign markets for our product candidates.

Our product candidates will remain subject to ongoing regulatory requirements even if they receive marketing approval, and if we fail to comply with requirements, we could lose these approvals and the sale of any approved commercial products could be temporarily or permanently suspended.

Even if we receive regulatory approval to market a particular product candidate, the product will remain subject to extensive regulatory requirements, including requirements relating to manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping. In addition, as clinical experience with a product expands after approval because it is typically used by a greater number of patients after approval than during clinical trials, side effects and other problems may be observed after approval that were not seen or anticipated during pre-approval clinical trials. We are required to maintain pharmacovigilance systems for collecting and reporting information concerning suspected adverse reactions to our product candidates. In response to pharmacovigilance reports, regulatory authorities may initiate proceedings to revise the prescribing information for our product candidates or to suspend or revoke our marketing authorizations. Procedural safeguards are often limited, and marketing authorizations can be suspended with little or no advance notice. Both before and after approval of a product, quality control and manufacturing procedures must conform to cGMP. Regulatory authorities, including the EMEA and the FDA, periodically inspect manufacturing facilities to assess compliance with cGMP. Accordingly, we and our contract manufacturers will need to continue to expend time, funds, and effort in the area of production and quality control to maintain cGMP compliance. If we fail to comply with the regulatory requirements of the FDA, the EMEA and other applicable U.S. and foreign regulatory authorities or previously unknown problems with any approved commercial products, manufacturers or manufacturing processes are discovered, we could be subject to administrative or judicially imposed sanctions or other setbacks, including:

- restrictions on the products, manufacturers or manufacturing processes;
- warning letters;
- civil or criminal penalties;
- fines;
- injunctions;
- product seizures or detentions;
- import bans;
- product recalls and related publicity requirements;
- unanticipated expenditures;
- total or partial suspension of production; and
- refusal to approve pending applications for marketing approval of new products or supplements to approved applications.

The imposition on us of any of the foregoing could materially harm our results of operations. In addition to regulations adopted by the EMEA, the FDA, and other foreign regulatory authorities, we are also subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, and other federal, state, and local regulations.

We are focusing our therapeutic product discovery and development efforts on G-Protein Coupled Receptor and ion channel-targeted product candidates, which have historically had a high incidence of adverse side effects.

Despite commercial success, many G-Protein Coupled Receptor, or GPCR, and ion channel-targeted products have been associated with a high incidence of adverse side effects due in part to poor selectivity in binding to their target protein, resulting in also binding to other off-target proteins. We believe we are designing our therapeutic product candidates to be highly selective and as a result to have a favorable side-effect profile. However, all of our therapeutic product candidates are in early stages of development, and although our clinical therapeutic product candidates have to date exhibited acceptable side-effect profiles in clinical trials in a limited number of subjects, we cannot assure you that these results will be repeated in larger-scale trials. If serious side effects occur in later-stage clinical trials of our therapeutic product candidates, we may not receive regulatory approval to commercialize them. Even if any of our therapeutic product candidates receive regulatory approval, if they do not exhibit a more favorable side-effect profile than existing therapies, our competitive position could be substantially diminished.

Table of Contents

The application of our in silico therapeutic product discovery technology and approach may be limited to a subset of therapeutically useful proteins, which may reduce the opportunities to develop and commercialize product candidates against other important therapeutic targets.

To date, our technology and approach has generated clinical therapeutic product candidates, including PRX-00023, PRX-03140, PRX-08066 and PRX-07034, which mimic the activity of a small molecule, serotonin, within a class of GPCR proteins known as serotonergic receptors. The activity is achieved through binding of the ligand, serotonin, to a particular region of the protein that spans the cell membrane. These GPCRs and mechanisms of interaction represent a small subset of all known therapeutically-relevant GPCRs. The application of our *in silico* technology to other known therapeutically-relevant GPCR targets based on large molecule ligands and other interactions is unknown. Ion channels can consist of multiple protein subunits that have complex and subtle mechanisms of activation and inactivation. Therefore, it may be difficult to apply our proprietary product discovery technology to small-molecule ion channel targets.

Although we believe that the *in silico* technology platform can be utilized and developed to discover such small molecules, we cannot ensure that our *in silico* technology and approach will generate clinical candidates for all GPCRs and ion channels that are important targets for therapeutic intervention.

We expect that our agreement with Amgen Inc. will provide us with a substantial portion of our future revenues.

We expect that a substantial portion of our future revenues will be generated from our collaboration agreement with Amgen, Inc. If Amgen were to terminate this agreement, fail to meet its obligations or otherwise decrease its commitment thereunder, our future revenues could be materially adversely affected and the development and commercialization of our S1P1 therapeutic drug candidates would be interrupted. In addition, if we and Amgen do not achieve some or any of the development and regulatory milestones, or Amgen does not achieve certain net sales thresholds as set forth in the agreement, we will not fully realize the expected benefits of the agreement. Further, the achievement of the various milestones under the agreement depend on factors that are outside of our control and most are not expected for several years, if at all. Our receipt of revenues under our agreement with Amgen will be directly affected by the level of efforts of Amgen and we cannot control whether Amgen will devote sufficient resources to development or commercialization of the technology under the agreement or whether Amgen will elect to pursue the development or commercialization of alternative products or services. Disagreements with Amgen could delay or terminate the continued development and commercialization of the licensed products by Amgen or result in litigation, any of which could have a material adverse affect on our business, financial condition and results of operations overall. If our agreement with Amgen is terminated prior to expiration, we would be required to enter into other strategic relationships or find alternative ways of continuing our S1P1 program. We cannot assure you that we would be able to enter into a similar agreement with another company with sufficient product development capabilities to commercialize this technology, and its failure to do so could materially and adversely affect our ability to generate revenues.

We depend on our strategic collaborators for support in product development and the regulatory approval process for our product candidates and, if approved, for product marketing.

Our product development programs and potential regulatory approval and commercialization of our product candidates will require substantial additional cash to fund expenses. Our strategy includes collaborating with a leading pharmaceutical, biotechnology or other companies to assist us in further developing and potentially commercializing our product candidates requiring large commercial sales and marketing infrastructures. We may also seek to enter into such collaborations for our other product candidates, especially for target indications in which the potential collaborator has particular expertise or that involve a large, primary care market that must be served by large sales and marketing organizations. We face significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. We may not be able to enter into any such collaboration on terms that are acceptable to us, or at all. If that were to occur, we may have to curtail the development of a particular product candidate, reduce or delay one or more of our development programs or potential commercialization, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development, potential regulatory approval or commercialization activities on our own, we will need to obtain additional capital, which may not be available to us

on acceptable terms, or at all. If we do not obtain sufficient funds, we will not be able to complete clinical development of our product candidates or bring our product candidates to market. For instance, in May 2006, we concluded a research collaboration with Schering AG for the development of certain potential imaging product candidates. We are in discussions, and expect to continue discussions, with Schering AG regarding the disposition of the research products under this research collaboration. While the research agreement is separate from our agreement with Schering AG relating to Vasovist, we cannot predict how the disposition or winding down of the individual research programs will occur, or whether we will be able to take forward any of these research programs ourselves or find alternative partners for these programs. In addition, on July 12, 2006, Schering AG notified us that it decided not to exercise its option to exclusively license EP-2104R. As a result, we intend to pursue a collaboration for the continued development of EP-2104R with new potential partners, who may negotiate provisions that allow them to terminate their agreements with us prior to the expiration of the negotiated term under certain circumstances.

Table of Contents

In addition, we depend, and expect to continue to depend, on strategic collaborators for support in a variety of other activities including manufacturing, marketing and distribution of our product candidates in the United States and abroad, when, and if, the FDA and corresponding foreign agencies approve our product candidates for marketing. Further, our receipt of revenues from strategic alliances is affected by the level of efforts of our collaborators. Our collaborators may not devote the resources necessary to complete development and commence marketing of a product candidate in their respective territories, or they may not successfully market product candidates. We are substantially dependent upon Schering to commercialize Vasovist, our lead imaging product candidate, in the United States and Europe, and Tyco/Mallinckrodt to manufacture Vasovist. Schering and Tyco/Mallinckrodt currently manufacture imaging agents for other technologies that will compete against Vasovist, and Schering AG will be responsible for setting the price of the product candidate worldwide. Accordingly, Schering AG may not set prices in a manner that maximizes revenues for us. In addition, Bayer AG recently extended an offer to acquire all of the outstanding shares of Schering AG. If the strategy of Bayer AG and Schering AG after the acquisition differs from that of Schering AG s current strategy with respect to the marketing of Vasovist, our expectations regarding the marketing of Vasovist could be negatively impacted which could have a material adverse effect on our imaging business. If Schering AG or any other third-party collaborator were to terminate its agreements with us or any third-party collaborator otherwise fails to perform its obligations under our collaboration or to complete them in a timely manner, we could lose significant revenue.

Our competitors may develop products that are less expensive, safer or more effective, which may diminish or eliminate the commercial success of any future products that we may commercialize.

Competition in the pharmaceutical and biotechnology industries is intense and expected to increase. We face competition from pharmaceutical and biotechnology companies, as well as numerous academic and research institutions and governmental agencies engaged in product discovery activities or funding, both in the United States and abroad. Some of these competitors have therapeutic products or are pursuing the development of therapeutic product candidates that target the same diseases and conditions that are the focus of our clinical-stage therapeutic product candidates, including the following:

PRX-00023. If approved, PRX-00023, the product candidate we are developing for the treatment of depression, will compete with approved products from such pharmaceutical companies as Forest Laboratories, GlaxoSmithKline, Pfizer and Wyeth, and may compete with several therapeutic product candidates in clinical development from other companies, including Eli Lilly and MediciNova. We believe that there are over 45 therapeutic product candidates in clinical trials or that have been submitted for approval for the treatment of depression.

PRX-03140. If approved, PRX-03140, the product candidate we are developing for the treatment of Alzheimer s disease, will compete with approved products from such pharmaceutical companies as Forest Laboratories, Johnson & Johnson, Novartis and Pfizer, and may compete with several therapeutic product candidates in clinical development from other companies, including Myriad Genetics and Neurochem. We believe that there are over 50 therapeutic product candidates in clinical trials for the treatment of Alzheimer s disease.

PRX-08066. If approved, PRX-08066, the product candidate we are developing for the treatment of pulmonary hypertension, will compete with approved products from such pharmaceutical companies as Actelion, CoTherix, GlaxoSmithKline, Pfizer and United Therapeutics, and may compete with several therapeutic product candidates in clinical development by other companies such as Encysive Pharmaceuticals and Myogen. We believe that there are approximately ten therapeutic product candidates in clinical trials or that have been submitted for approval for the treatment of pulmonary arterial hypertension and/or pulmonary hypertension associated with chronic obstructive pulmonary disease.

PRX-07034. If approved for the treatment of obesity, PRX-07034 will compete with approved products from such pharmaceutical companies as Abbott Laboratories and Roche, and may compete with several therapeutic product candidates in clinical development by other companies, such as Sanofi-Aventis and Arena

Pharmaceuticals. We believe that there are over 30 therapeutic product candidates in clinical trials for the treatment of obesity. If approved for the treatment of cognitive impairment (associated with Alzheimer s disease or schizophrenia), PRX-07034 will compete with approved products from such pharmaceutical companies as Forest Laboratories, Johnson & Johnson, Novartis and Pfizer, and may compete with several therapeutic product candidates in clinical development from other companies, including GlaxoSmithKline and Saegis Pharmaceuticals. We believe that there are over 50 therapeutic product candidates in clinical trials for the treatment of cognitive impairment associated with Alzheimer s disease or schizophrenia.

Many patents covering commercial therapeutic products for these indications will expire within the next four to nine years, which will result in greater competition in these indications resulting from companies producing generic versions of the commercial products. Many of our competitors have therapeutic products that have been approved or are in advanced development and may develop superior technologies or methods to identify and validate therapeutic product targets and to discover novel small-molecule products. Our competitors may also develop alternative therapies that could further limit the market for any therapeutic products that we may develop.

Table of Contents

In addition, there are a number of general use MRI agents approved for marketing in the United States, and in certain foreign markets that, if used or developed for magnetic resonance angiography, are likely to compete with Vasovist. Such products include Magnevist and Gadovist by Schering AG, Dotarem by Guerbet, S.A., Omniscan by GE Healthcare, ProHance and MultiHance by Bracco and OptiMARK by Tyco/Mallinckrodt. We are aware of five agents under clinical development that have been or are being evaluated for use in magnetic resonance angiography: Schering AG s Gadomer and SHU555C, Guerbet s Vistarem, Bracco s B-22956/1, Ferropharm s Code VSOP-C184, and Advanced Magnetics Ferumoxytol. Moreover, there are several well-established medical imaging methods that currently compete and will continue to compete with MRI, including digital subtraction angiography, which is an improved form of X-ray angiography, computed tomography angiography, nuclear medicine and ultrasound, and there are companies that are actively developing the capabilities of these competing methods to enhance their effectiveness in vascular system imaging.

We cannot assure you that our competitors will not succeed in the future in developing therapeutic or imaging products that are more effective than any that we are developing. We believe that our ability to compete in developing commercial products depends on a number of factors, including the success and timeliness with which we complete FDA trials, the breadth of applications, if any, for which our product candidates receive approval, and the effectiveness, cost, safety and ease of use of our product candidates in comparison to the products of our competitors. In addition, these companies may be more successful than we are in developing, manufacturing and marketing their imaging products. In addition, many of our competitors and their collaborators have substantially greater capital, research and development resources, manufacturing, sales and marketing experience and capabilities. Smaller companies also may prove to be significant competitors, particularly through proprietary research discoveries and collaboration arrangements with large pharmaceutical and established biotechnology companies. Our competitors, either alone or with their collaborators, may succeed in developing products that are more effective, safer, more affordable or more easily administered than our product candidates and may achieve patent protection or commercialize product candidates sooner than us. Any inability to compete successfully on our part will have a materially adverse impact on our business and operating results.

If the market does not accept our technology and product candidates, we may not generate sufficient revenues to achieve or maintain profitability.

The commercial success of our product candidates, even if approved for marketing by the FDA and corresponding foreign agencies, depends on their acceptance by the medical community and third-party payors as clinically useful, cost-effective and safe. Market acceptance, and thus sales of our products, will depend on several factors, including:

safety;

cost-effectiveness relative to alternative therapies, methods or products;

availability of third-party reimbursement;

ease of administration;

clinical efficacy; and

availability of competitive products.

If any of our product candidates, when and if commercialized, do not achieve market acceptance, we may not generate sufficient revenues to achieve or maintain profitability.

In addition, market acceptance of our imaging product candidates will also depend on our ability and that of our strategic partners to educate the medical community and third-party payors about the benefits of diagnostic imaging with Vasovist-enhanced magnetic resonance angiography compared to imaging with other technologies. While contrast agents are currently used in an estimated 25% to 35% of all MRI exams, there are no MRI agents approved by the FDA for vascular imaging. Furthermore, clinical use of magnetic resonance angiography has been limited and

use of magnetic resonance angiography for some vascular disease imaging has occurred mainly in research and academic centers. Vasovist represents a new approach to imaging the non-coronary vascular system, and market acceptance both of magnetic resonance angiography as an appropriate imaging technique for the non-coronary vascular system, and of Vasovist, is critical to our success.

We may not be able to keep up with the rapid technological change in the biotechnology and pharmaceutical industries, which could make any of our future approved therapeutic products obsolete and reduce our revenue.

Biotechnology and related pharmaceutical technologies have undergone and continue to be subject to rapid and significant change. Our future will depend in large part on our ability to maintain a competitive position with respect to these technologies. We believe that our proprietary therapeutic product discovery technology and approach enables structure-based discovery and optimization of certain GPCR and ion channel-targeted drug candidates. However, our competitors may render our technologies obsolete by advances in existing GPCR and ion channel-targeted drug discovery approaches or the development of new or different approaches. In addition, any future therapeutic products that we develop, including our clinical-stage therapeutic product candidates,

PRX-08066, PRX-00023, PRX-03140 and PRX-07034, may become obsolete before we recover expenses incurred in developing those therapeutic product candidates, which may require that us to raise additional funds to continue our operations.

We are currently focusing our imaging development efforts primarily on Vasovist and will have limited prospects for successful imaging operations if it does not prove successful.

Since the merger with Predix, we are focusing our imaging development efforts on our lead imaging product candidate, Vasovist. Accordingly, we have decided to cease work on our research projects related to imaging and are seeking a partner to continue development of EP-2104R. We are no longer allocating resources to any imaging research or clinical programs other than the efforts required to continue to pursue FDA approval of Vasovist. Our efforts may not lead to commercially successful imaging products for a number of reasons, including the inability to be proven safe and effective in clinical trials, the lack of regulatory approvals or obtaining regulatory approvals that are narrower than we seek, inadequate financial resources to complete the development and commercialization of our imaging product candidates or their lack of acceptance in the marketplace.

Our product candidates require significant biological testing, pre-clinical testing, manufacturing and pharmaceutical development expertise and investment. We rely primarily on external partners to complete these activities.

We have limited in-house biological and pre-clinical testing capabilities. Therefore, we rely heavily on third parties to perform *in vitro* potency, *in vivo* functional efficacy, animal toxicology and pharmacokinetics testing prior to advancing our product candidates into clinical trials. We also do not have internal expertise to formulate our therapeutic product candidates. In addition, we do not have, nor do we currently have plans to develop, full-scale manufacturing capability for any of our products candidates, including Vasovist. We currently rely solely on Johnson Matthey Pharma Services for our therapeutic product substance manufacturing and testing, and solely on Aptuit, Inc. for our therapeutic product manufacturing and testing. Although we believe that we could replace these suppliers on commercially reasonable terms, if any of these third parties fail to fulfill their obligations to us or do not successfully compete the testing in a timely or acceptable manner, our therapeutic product development efforts could be negatively impacted and/or delayed. We rely on, and we intend to continue to rely on, Tyco/Mallinckrodt as the primary manufacturer of Vasovist for any future human clinical trials and commercial use. Together with Schering AG, we are considering alternative manufacturing arrangements for Vasovist for commercial use, including the transfer of manufacturing to Schering AG. In the event that Tyco/Mallinckrodt fails to fulfill its manufacturing responsibilities satisfactorily, Schering AG has the right to purchase Vasovist from a third party or to manufacture the compound itself. However, either course of action could materially delay the manufacture and development of Vasovist. Schering AG may not be able to find an alternative manufacturer. In addition, Schering AG may not be able to manufacture Vasovist itself in a timely manner or in sufficient quantities. If we experience a delay in manufacturing of Vasovist or any of our product candidates, it could result in a delay in their clinical testing, approval or commercialization and have a material adverse effect on our business, financial condition and results of operations.

Operational Risks

We have never generated positive cash flow, and if we fail to generate revenue, it will have a material adverse effect on our business.

To date, we have received revenues from payments made under licensing, royalty arrangements and product development and marketing agreements with strategic collaborators. In particular, our revenue for the nine months ended September 30, 2006 was $4.4 million and consisted of $2.4 million of product development revenue from Schering AG and CFFT, $1.3 million of royalty revenue related to the Bracco and Schering AG agreements, and $0.7 million of license fee revenue related to the Schering, Amgen, Tyco/Mallinckrodt and CFFT strategic collaborations and Bracco agreements. In addition to these sources of revenue, we have financed our operations to date through public stock and debt offerings, private sales of equity securities and equipment lease financings.

Although we believe that we are currently in compliance with the terms of our collaboration and licensing agreements, the revenues derived from them are subject to fluctuation in timing and amount. We may not receive anticipated revenue under our existing collaboration or licensing agreements, these agreements may be subject to disputes and, additionally, these agreements may be terminated upon certain circumstances. Therefore, to achieve

profitable and sustainable operations, we, alone or with others, must successfully develop, obtain regulatory approval for, introduce, market and sell products. We may not receive revenue from the sale of any of our product candidates for the next several years because we, and our partners, may not:

- successfully complete our product development efforts;
- obtain required regulatory approvals in a timely manner, if at all;
- manufacture our product candidates at an acceptable cost and with acceptable quality; or
- successfully market any approved products.

Table of Contents

As a result, we may never generate revenues from sales of our product candidates and our failure to generate positive cash flow could cause our business to fail.

We may need to raise additional funds necessary to fund our operations, and if we do not do so, we may not be able to implement our business plan.

Since inception, we have funded our operations primarily through our public offerings of common stock, private sales of equity securities, debt financing, equipment lease financings, product development revenue, and royalty and license payments from our strategic partners. Although we believe that we have adequate funding to fund our operations through 2007, we may need to raise substantial additional funds for research, development and other expenses through equity or debt financings, strategic alliances or otherwise. Our future liquidity and capital requirements will depend upon numerous factors, including the following:

the progress and scope of clinical trials;

the timing and costs of filing future regulatory submissions;

the timing and costs required to receive both U.S. and foreign governmental approvals;

the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;

the extent to which our product candidates gain market acceptance;

the timing and costs of product introductions;

the extent of our ongoing and any new research and development programs;

the costs of training physicians to become proficient with the use of our product candidates; and

the costs of developing marketing and distribution capabilities.

Based on our current plans, expense rates, targeted timelines and our view regarding acceptance of Vasovist in the marketplace, we estimate that cash, cash equivalents and marketable securities on hand as of September 30, 2006 will fund our operations through March 31, 2008. If, however, we consider other opportunities, change our planned activities or are required to pay the remaining $15.0 portion of the milestone payment in connection with the Predix merger to Predix security holders in cash, we will require additional funding before currently expected.

If we are unable to attract and retain key management and other personnel, it would hurt our ability to compete.

Our future business and operating results depend in significant part upon our ability to attract and retain qualified directors, senior management and key technical personnel. Michael G. Kauffman, M.D., Ph.D., Andrew C.G. Uprichard, M.D. and Kimberlee C. Drapkin, C.P.A., our Chief Executive Officer, President and Chief Financial Officer, respectively, are expected to play key roles moving forward. There can be no assurance that we will be able to retain Dr. Kauffman, Dr. Uprichard, Ms. Drapkin or any of our other key management and scientific personnel. For example, effective October 23, 2006, Silvia Noiman, our Senior Vice President of Pipeline Management and General Manager Israel, resigned, and Oren Becker, our Chief Scientific Officer, has been appointed to oversee Israeli operations until such time as we can identify a successor. Our inability to attract and retain qualified individuals to these positions and others, the loss of any of our key management and other personnel, or their failure to perform their current positions could have a material adverse effect on our business, financial condition and results of operations, and our ability to achieve our business objectives or to operate or compete in our industry may be seriously impaired. Competition for personnel is intense and we may not be successful in attracting or retaining such personnel. If we were to lose these employees to our competition, we could spend a significant amount of time and resources to replace them, which would impair our research and development or commercialization efforts.

Gadolinium-based imaging agents, such as Vasovist and EP-2104R, may cause adverse side effects which could limit our ability to receive approval for these product candidates and our ability to effectively market these product candidates, if approved.

Vasovist and EP-2104R, both MRI contrast drugs, contain gadolinium. In May 2006, the Danish Medicines Agency announced that it was investigating a possible link between the use of Omniscan, an imaging agent containing gadolinium, and the development of a very rare skin disease in 25 patients with severely impaired renal function who had been administered the imaging agent. Although the Danish Medicines Agency stated that a causal relationship between Omniscan and the skin changes had not been documented, they are conducting further investigations with respect to all MRI contrast media containing gadolinium. Although we have reviewed our safety databases for Vasovist and EP-2104R and have found no instances of this rare skin disease, our databases may be too small to show such an effect, if it exists. In the event gadolinium-based imaging agents such as Vasovist and EP-2104R are linked to this very rare skin disease or other unanticipated side effects, such safety concerns could have a material adverse effect on our ability to obtain marketing approval for Vasovist and/or EP-2104R or any such approval for use may be revoked. Any safety concerns could also materially harm our and our partners ability to successfully market Vasovist and/or EP-2104R.

Table of Contents

Our research and development efforts may not result in product candidates appropriate for testing in human clinical trials.

We have historically spent significant resources on research and development and pre-clinical studies of product candidates. However, these efforts may not result in the development of product candidates appropriate for testing in human clinical trials. For example, our research may result in product candidates that are not expected to be effective in treating diseases or may reveal safety concerns with respect to product candidates. In connection with our recent restructuring, we postponed or terminated several research and development programs, and we may postpone or terminate research and development of a product candidate or a program at any time for any reason such as the safety or effectiveness of the potential product, allocation of resources or unavailability of qualified research and development personnel. The failure to generate high-quality research and development candidates would negatively impact our ability to advance product candidates into human clinical testing and ultimately, negatively impact our ability to market and sell products.

We rely on third parties to conduct our clinical trials, and those third-parties may not perform satisfactorily, including failing to meet established deadlines for the completion of such trials.

We do not have the ability to independently conduct clinical trials for our product candidates, and we rely on third parties such as contract research organizations, medical institutions and clinical investigators to enroll qualified patients and conduct our clinical trials. Our reliance on these third parties for clinical development activities reduces our control over these activities. Accordingly, these third-party contractors may not complete activities on schedule, or may not conduct our clinical trials in accordance with regulatory requirements or our trial design. To date, we believe our contract research organizations and other similar entities with which we are working have performed well. However, if these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may be required to replace them. Although we believe that there are other third-party contractors we could engage to continue these activities, it may result in a delay of the affected trial. Accordingly, our efforts to obtain regulatory approvals for and commercialize our product candidates may be delayed.

If we fail to get adequate levels of reimbursement from third-party payors for our product candidates after they are approved in the United States and abroad, we may have difficulty commercializing our product candidates.

We believe that reimbursement in the future will be subject to increased restrictions, both in the United States and in foreign markets. We believe that the overall escalating cost of medical products and services has led to, and will continue to lead to, increased pressures on the health care industry, both foreign and domestic, to reduce the cost of products and services, including products offered by us. These third-party payors are increasingly attempting to contain healthcare costs by demanding price discounts or rebates and limiting both coverage on which drugs they will pay for and the amounts that they will pay for new products. As a result, they may not cover or provide adequate payment for our products. We might need to conduct post-marketing studies in order to demonstrate the cost-effectiveness of any future products to such payors satisfaction. Such studies might require us to commit a significant amount of management time and financial and other resources. Our future products might not ultimately be considered cost-effective. There can be no assurance, in either the United States or foreign markets, that third-party reimbursement will be available or adequate, that current reimbursement amounts will not be decreased in the future or that future legislation, regulation, or reimbursement policies of third-party payors will not otherwise adversely affect the demand for our product candidates or our ability to sell our product candidates on a profitable basis. The unavailability or inadequacy of third-party payor coverage or reimbursement could have a material adverse effect on our business, financial condition and results of operations.

Failure by physicians, hospitals and other users of our product candidate to obtain sufficient reimbursement from third-party payors for the procedures in which our product candidate would be used or adverse changes in governmental and private third-party payors policies toward reimbursement for such procedures may have a material adverse effect on our ability to market our product candidate and, consequently, it could have an adverse effect on our business, financial condition and results of operations. If we obtain the necessary foreign regulatory approvals, market acceptance of our product candidates in international markets would be dependent, in part, upon the availability of reimbursement within prevailing healthcare payment systems. Reimbursement and healthcare payment systems in international markets vary significantly by country, and include both government sponsored health care and private

insurance. We and our strategic partners intend to seek international reimbursement approvals, although we cannot assure you that any such approvals will be obtained in a timely manner, if at all, and failure to receive international reimbursement approvals could have an adverse effect on market acceptance of our product candidate in the international markets in which such approvals are sought.

We could be adversely affected by changes in reimbursement policies of governmental or private healthcare payors, particularly to the extent any such changes affect reimbursement for procedures in which our product candidates would be used. U.S. and foreign governments continue to propose and pass legislation designed to reduce the cost of healthcare. For example, in some foreign markets, the government controls the pricing of prescription pharmaceuticals. In the United States, we expect that there will continue to be federal and state proposals to implement similar governmental controls. In addition, recent changes in the Medicare program and increasing emphasis on managed care in the United States will continue to put pressure on pharmaceutical product pricing. Cost control initiatives could decrease the price that we would receive for any products in the future, which would limit our revenue and profitability. Accordingly, legislation and regulations affecting the pricing of pharmaceuticals might change before our

product candidates are approved for marketing. Adoption of such legislation could further limit reimbursement for pharmaceuticals.

We deal with hazardous materials and must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

The nature of our research and development processes requires the use of hazardous substances and testing on certain laboratory animals. Accordingly, we are subject to extensive federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes as well as the use of and care for laboratory animals. Although we are not currently, nor have we been, the subject of any investigations by a regulatory authority, we cannot assure you that we will not become the subject of any such investigation. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials.

In the event of an accident, state or federal authorities may curtail our use of these materials and interrupt our business operations. In addition, we could be liable for any civil damages that result, which may exceed our financial resources and may seriously harm our business. Due to the small amount of hazardous materials that we generate, we have determined that the cost to secure insurance coverage for environmental liability and toxic tort claims far exceeds the benefits. Accordingly, we do not maintain any insurance to cover pollution conditions or other extraordinary or unanticipated events relating to our use and disposal of hazardous materials. Additionally, an accident could damage, or force us to shut down, our operations. In addition, if we develop a manufacturing capacity, we may incur substantial costs to comply with environmental regulations and would be subject to the risk of accidental contamination or injury from the use of hazardous materials in our manufacturing process. Furthermore, current laws could change and new laws could be passed that may force us to change our policies and procedures, an event which could impose significant costs on us.

Product liability claims could increase our costs and adversely affect our results of operations.

The clinical testing of our products and the manufacturing and marketing of any approved products may expose us to product liability claims and we may experience material product liability losses in the future. We currently have limited product liability insurance for the use of our approved products and product candidates in clinical research, which is capped at $10.0 million, but our coverage may not continue to be available on terms acceptable to us or adequate for liabilities we actually incur. We do not have product liability insurance coverage for the commercial sale of our product candidates, but intend to obtain such coverage when and if we commercialize our product candidates. However, we may not be able to obtain adequate additional product liability insurance coverage on acceptable terms, if at all. A successful claim brought against us in excess of available insurance coverage, or any claim or product recall that results in significant adverse publicity against us, may have a material adverse effect on our business and results of operations.

Political and military instability and other factors may adversely affect our operations in Israel.

We have significant operations in Israel and regional instability, military conditions, terrorist attacks, security concerns and other factors in Israel may directly affect these operations. Our employees in Israel are primarily computational chemists and are responsible for the computational chemistry for all of our therapeutic discovery stage programs. Accordingly, any disruption in our Israeli operations could adversely affect our ability to advance our therapeutic discovery stage programs into clinical trials. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel, and in particular since 2000, there has been an increased level of violence between Israel and the Palestinians. Any armed conflicts or political instability in the region could harm our operations in Israel. In addition, many of our employees in Israel are obligated to perform annual military reserve duty, and, in the event of a war, military or other conflict, our employees could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of time of one or more of our key employees or a significant number of our other employees due to military service. Furthermore, several countries restrict business with Israel and Israeli companies, and these restrictive laws and policies could harm our business.

We depend on exclusively licensed technology from Ramot at Tel Aviv University Ltd. and the Massachusetts General Hospital and, if we lose either of these licenses, it is unlikely we could obtain such technology elsewhere, which would have a material adverse effect on our business.

Our proprietary drug discovery technology and approach is in part embodied in technology that we license from Ramot at Tel Aviv University Ltd., the technology transfer company of Tel Aviv University. All of our current clinical-stage therapeutic drug candidates, PRX-00023, PRX-03140, PRX-08066 and PRX-07034, were, at least in part, identified, characterized or developed using the licensed technology. We are required to make various payments to Ramot, as and when rights to any such drug candidates are ever sublicensed or any such drug candidates are commercialized. Because we have an ongoing obligation to pay annual minimum royalties to Ramot and the license expires upon the expiration of such obligation, the license may not expire. The license may,

however, be terminated upon a breach by us or our bankruptcy. In addition, two of our employees, Oren Becker, Chief Scientific Officer, and Sharon Shacham, Vice President, Product Leader, were inventors of the technology that we license from Ramot. We believe that Ramot shares a portion of any royalty income received with the respective inventors and, accordingly, these employees receive a portion of the amounts we pay Ramot. In addition, under the terms of a license agreement that we have with MGH, we are the exclusive licensee to certain imaging technology, which relates to royalties we receive and to Vasovist. The license agreement imposes various commercialization, sublicensing, royalty and other obligations on us. The license agreement expires on a country-by-country basis when the patents covered by the license agreement expire. For example, the patents covered by this license agreement are currently expected to expire in November 2006, although the life of these patents may be extended. One of these patents has been extended through Supplementary Protection Certificates for Primovist through May 2011 in certain European countries. The license agreement does not contain a renewal provision. If we fail to comply with our obligations under either of these license agreements, the respective license could convert from exclusive to nonexclusive, or terminate entirely. It is unlikely that we would be able to obtain the technology licensed under either of these agreements elsewhere. Any such event would also mean that, with respect to our MGH license, we would not receive royalties from Bracco for MultiHance or Schering AG for Primovist and that we or Schering AG could not sell Vasovist and, with respect to our Ramot license, that we would not be able to sublicense or commercialize any of our current clinical- stage therapeutic drug candidate, either of which would have a material adverse effect on our business and our financial condition and results of operations.

Intellectual Property Risks

We depend on patents and other proprietary rights, and if they fail to protect our business, we may not be able to compete effectively.

The protection of our proprietary technologies is material to our business prospects. We pursue patents for our product candidates in the United States and in other countries where we believe that significant market opportunities exist. We own or have an exclusive license to patents and patent applications on aspects of our core technology as well as many specific applications of this technology. These patents relate to MRI signal generation technology, Vasovist, EP-2104R and our other research projects and include method of use patents. Some of our patents related to Vasovist will expire in 2006. Other patents related to Vasovist will not expire until 2015. Protection for Vasovist manufacturing processes in the United States will not expire until 2017. Patents related to certain methods of using Vasovist will not expire until 2021. A patent related to EP-2104R will not expire until 2022. If all of our pending patent applications issue with claims substantially similar to those currently set forth in such applications, further patent protection for EP-2104R may not expire until 2022. As of October 27, 2006, our patent portfolio included a total of 17 issued U.S. patents, 113 issued foreign patents, one allowed U.S. patent awaiting issuance, and 245 pending patent applications in the U.S. and other countries with claims covering the composition of matter and methods of use for all of our clinical-stage product candidates. We also exclusively license technology embodied in patent applications from Ramot at Tel Aviv University Ltd., the technology transfer company of Tel Aviv University. Physiome Sciences, Inc., a predecessor of Predix, received U.S. Patent 5,947,899, which covers a computational system and method for modeling the heart. This patent expires in 2016. Even though we hold numerous patents and have made numerous patent applications, because the patent positions of pharmaceutical and biopharmaceutical firms, including our patent positions, generally include complex legal and factual questions, our patent positions remain uncertain. For example, because most patent applications are maintained in secrecy for a period after filing, we cannot be certain that the named applicants or inventors of the subject matter covered by our patent applications or patents, whether directly owned or licensed to us, were the first to invent or the first to file patent applications for such inventions. Third parties may oppose, challenge, infringe upon, circumvent or seek to invalidate existing or future patents owned by or licensed to us. A court or other agency with jurisdiction may find our patents invalid, not infringed or unenforceable and we cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future. Even if we have valid patents, these patents still may not provide sufficient protection against competing products or processes. If we are unable to successfully protect our proprietary methods and technologies, or if our patent applications do not result in issued patents, we may not be able to prevent other companies from practicing our technology and, as a result, our

competitive position may be harmed.

We may need to initiate lawsuits to protect or enforce our patents and other intellectual property rights, which could result in our incurrence of substantial costs and which could result in the forfeiture of these rights.

We may need to bring costly and time-consuming litigation against third parties in order to enforce our issued patents, protect our trade secrets and know how, or to determine the enforceability, scope and validity of proprietary rights of others. In addition to being costly and time-consuming, such lawsuits could divert management s attention from other business concerns. These lawsuits could also result in the invalidation or a limitation in the scope of our patents or forfeiture of the rights associated with our patents or pending patent applications. We may not prevail and a court may find damages or award other remedies in favor of an opposing party in any such lawsuits. During the course of these suits, there may be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. Securities analysts or investors may perceive these announcements to be negative, which could cause the market price of our stock to decline. In addition, the cost of such litigation could have a material adverse effect on our business and financial condition.

Table of Contents

Other rights and measures that we rely upon to protect our intellectual property may not be adequate to protect our products and services and could reduce our ability to compete in the market.

In addition to patents, we rely on a combination of trade secrets, copyright and trademark laws, non-disclosure agreements and other contractual provisions and technical measures to protect our intellectual property rights. While we require employees, collaborators, consultants and other third parties to enter into confidentiality and/or non-disclosure agreements, where appropriate, any of the following could still occur:

the agreements may be breached;

we may have inadequate remedies for any breach;

proprietary information could be disclosed to our competitors; or

others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose such technologies.

If, as a result of the foregoing or otherwise, our intellectual property is disclosed or misappropriated, it would harm our ability to protect our rights and our competitive position. Moreover, several of our management and scientific personnel were formerly associated with other pharmaceutical and biotechnology companies and academic institutions. In some cases, these individuals are conducting research in similar areas with which they were involved prior to joining us. As a result, we, as well as these individuals, could be subject to claims of violation of trade secrets and similar claims.

Our success will depend partly on our ability to operate without infringing the intellectual property rights of others, and if we are unable to do so, we may not be able to sell our products.

Our commercial success will depend, to a significant degree, on our ability to operate without infringing upon the patents of others in the United States and abroad. There may be pending or issued patents held by parties not affiliated with us relating to technologies we use in the development or use of certain of our contrast agents. If any judicial or administrative proceeding upholds these or any third-party patents as valid and enforceable, we could be prevented from practicing the subject matter claimed in such patents, or would be required to obtain licenses from the owners of each such patent, or to redesign our product candidates or processes to avoid infringement. For example, in November 2003, we entered into an intellectual property agreement with Dr. Martin R. Prince, an early innovator in the field of magnetic resonance angiography, relating to dynamic magnetic resonance angiography, which involves capturing magnetic resonance angiography images during the limited time, typically 30 to 60 seconds, available for imaging with extracellular agents. Under the terms of the intellectual property agreement, Dr. Prince granted us certain discharges, licenses and releases in connection with the historic and future use of Vasovist by us and agreed not to sue us for intellectual property infringement related to the use of Vasovist. In consideration of Dr. Prince entering into the agreement, we agreed to pay him an upfront fee of $850,000 and royalties on sales of Vasovist consistent with a non-exclusive early stage academic license and agreed to deliver to him approximately 88,000 shares of our common stock, with a value of approximately $2.3 million based on the closing price of our common stock on the date of the agreement. In addition, we agreed to supply Dr. Prince with approximately $140,000 worth of Vasovist annually. This obligation to provide $140,000 of Vasovist annually to Dr. Prince continues throughout the patent life of Vasovist. If we are unable to obtain a required license on acceptable terms, or are unable to design around these or any third-party patents, we may be unable to sell our products, which would have a material adverse effect on our business.

If MRI manufacturers are not able to enhance their hardware and software sufficiently, we will not be able to complete development of our contrast agent for the evaluation of cardiac indications.

Although MRI hardware and software is sufficient for the evaluation of non-coronary vascular disease, which is our initial target indication, we believe that the technology is not as advanced for cardiac applications. Our initial NDA filing for Vasovist is related to non-coronary vascular disease. Based on feasibility studies we completed in 2001, however, the imaging technology available for cardiac applications, including coronary angiography and cardiac perfusion imaging, was not developed to the point where there was clear visualization of the cardiac region due to the

effects of motion from breathing and from the beating of the heart. In 2004, we initiated Phase 2 feasibility trials of Vasovist for cardiac indications using available software and hardware that can be adapted for coronary and cardiac perfusion data acquisition, and preliminary review of the data indicates that we have not resolved the technical issues related to this use of Vasovist. We have collaborated with a number of leading academic institutions and with GE Healthcare, Siemens Medical Systems and Philips Medical Systems to help optimize cardiac imaging with Vasovist. We do not know when, or if, these techniques will enable Vasovist to provide clinically relevant images in cardiac indications. If MRI device manufacturers are not able to enhance their scanners to perform clinically useful cardiac imaging, we will not be able to complete our development activities of Vasovist for that application, thereby reducing the potential market for a product in this area.

Risks Related to our Securities

Our stock price is volatile. It is possible that you may lose all or part of your investment.

Table of Contents

The market prices of the capital stock of medical technology companies have historically been very volatile and the market price of the shares of our common stock fluctuates. The market price of our common stock is affected by numerous factors, including:

actual or anticipated fluctuations in our operating results;

announcements of technological innovation or new commercial products by us or our competitors;

new collaborations entered into by us or our competitors;

developments with respect to proprietary rights, including patent and litigation matters;

results of pre-clinical studies and clinical trials;

the timing of our achievement of regulatory milestones;

conditions and trends in the pharmaceutical and other technology industries;

adoption of new accounting standards affecting such industries;

changes in financial estimates by securities analysts;

perceptions of the value of corporate transactions; and

degree of trading liquidity in our common stock and general market conditions.

Since the closing of our merger with Predix and our 1 for 1.5 share reverse stock split on August 16, 2006, the closing price of our common stock ranged from $7.58 to $3.80 per share. The last reported closing price for our common stock on November 1, 2006 was $4.22. Significant declines in the price of our common stock could impede our ability to obtain additional capital, attract and retain qualified employees and reduce the liquidity of our common stock.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stock of similarly staged companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a particular company s securities, shareholders have often brought class action securities litigation against that company. Such litigation could result in substantial costs and a diversion of management s attention and resources. For example, in January 2005, a securities class action was filed in U.S. District Court for the District of Massachusetts against us and certain of our officers on behalf of persons who purchased our common stock between July 10, 2003 and January 14, 2005. The complaint alleged that we and the other defendants violated the Securities Exchange Act of 1934, as amended, by issuing a series of materially false and misleading statements to the market throughout the class period, which statements had the effect of artificially inflating the market price of our securities. In January 2006, the U.S. District Court for the District of Massachusetts granted our Motion to Dismiss for Failure to Prosecute the shareholder class action lawsuit against us. The dismissal was issued without prejudice after a hearing, which dismissal does not prevent another suit to be brought based on the same claims.

We significantly increased our leverage as a result of the sale of 3.0% Convertible Senior Notes due 2024, and may be unable to repay, repurchase or redeem these notes if, and when, required.

In connection with the sale of 3.0% Convertible Senior Notes due 2024, we have incurred indebtedness of $100.0 million. Our ability to meet our debt service obligations will depend upon our future performance, which will be subject to regulatory approvals and sales of our products, as well as other financial and business factors affecting our operations, many of which are beyond our control. The amount of our indebtedness could, among other things:

make it difficult for us to make payments on the notes;

make it difficult for us to obtain financing for working capital, acquisitions or other purposes on favorable terms, if at all;

make us more vulnerable to industry downturns and competitive pressures; and

limit our flexibility in planning for, or reacting to changes in, our business.

In addition, although our 3.0% Convertible Senior Notes do not mature until 2024, noteholders may require us to repurchase these notes at par, plus accrued and unpaid interest, on June 15, 2011, 2014 and 2019 and upon certain other designated events under the notes, which include a change of control of us or termination of trading of our common stock on The NASDAQ Global Market. The definition of change in control set forth in the indenture governing the notes does not include certain mergers and similar transactions that are not deemed a change in control. While we believe that our merger with Predix did not constitute a change of control of us under the indenture, we cannot assure you that we will not become obligated to repurchase these notes, in whole or in part, as a result of the merger. Based on the current trading price of our common stock, we anticipate that in such event most, if not all, of the noteholders would tender their notes for repurchase. We may not have enough funds or be able to arrange for additional

Table of Contents

financing to repurchase the notes tendered by the holders upon a designated event or otherwise. Any failure to repurchase tendered notes would constitute an event of default under the indenture, which might also constitute a default under the terms of our other debt. If we are required to repurchase or redeem these notes prior to their maturity, whether as a result of the merger or otherwise, the financial position of the combined company would be materially adversely affected and the anticipated benefits of the merger would be significantly diminished.

Future sales of common stock by our existing stockholders and former security holders of Predix may cause the stock price of our common stock to fall.

The market price of our common stock could decline as a result of sales by our existing stockholders and former Predix stockholders in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at an appropriate time and price.

Certain anti-takeover clauses in our charter and by-laws and in Delaware law may make an acquisition of us more difficult.

Our restated certificate of incorporation authorizes our board of directors to issue, without stockholder approval, up to 1,000,000 shares of preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock or of rights to purchase preferred stock could be used to discourage an unsolicited acquisition proposal. In addition, the possible issuance of preferred stock could discourage a proxy contest, make more difficult the acquisition of a substantial block of our common stock or limit the price that investors might be willing to pay for shares of our common stock. Our restated certificate of incorporation provides for staggered terms for the members of our board of directors. A staggered board of directors and certain provisions of our by-laws and of the state of Delaware law applicable to us could delay or make more difficult a merger, tender offer or proxy contest involving us. We are subject to Section 203 of the General Corporation Law of the State of Delaware, which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation s outstanding voting stock for a period of three years from the date the stockholder becomes an interested stockholder. These provisions may have the effect of delaying or preventing a change in control of us without action by the stockholders and, therefore, could adversely affect the price of our stock.

Table of Contents

BUSINESS

OVERVIEW

On August 16, 2006, we completed our acquisition of Predix Pharmaceuticals Holdings, Inc. (Predix) pursuant to the terms of that certain Agreement and Plan of Merger, dated as of April 3, 2006 as amended on July 10, 2006, by and among us, EPIX Delaware, Inc., our wholly-owned subsidiary, and Predix, as amended. Pursuant to the merger agreement, Predix merged with and into EPIX Delaware, Inc. and became a wholly-owned subsidiary of us. The merger with Predix was primarily a stock transaction valued at approximately $125 million, including the assumption of net debt at closing. As part of the merger, we also assumed all outstanding options and warrants to purchase capital stock of Predix. The purchase price includes a $35 million payment to the holders of Predix stock, options and warrants payable in cash, stock or a combination of both based on Predix having achieved a certain strategic milestone. Pursuant to the terms of the merger agreement, $20 million of the milestone was paid in cash on October 29, 2006. The remaining $15 million of the milestone payment will be paid in shares of EPIX common stock on October 29, 2007, except to the extent that such shares would exceed 49.99% of outstanding shares immediately after such milestone payment when combined with all shares of EPIX common stock issued in the merger and issuable upon exercise of all Predix options and warrants that we assumed in the merger. In addition, in connection with the merger, we effected a 1-for-1.5 reverse stock split of our outstanding common stock.

Following the merger, EPIX is a biopharmaceutical company focused on discovering, developing and commercializing novel pharmaceutical products through the use of proprietary technologies to better diagnose, treat and manage patients. We have a blood-pool imaging agent (Vasovist) approved in the European Union, Canada, Iceland, Norway, Switzerland and Australia, and five internally-discovered therapeutic and imaging drug candidates currently in clinical trials. Vasovist is currently marketed in Europe. These drug candidates are targeting conditions such as depression, Alzheimer s disease, cardiovascular disease and obesity. We also have collaborations with leading organizations, including Amgen, Cystic Fibrosis Foundation Therapeutics, and Schering AG (Germany).

The focus of our therapeutic drug discovery and development efforts is on the two classes of drug targets known as G-protein Coupled Receptors (GPCRs) and ion channels. GPCRs and ion channels are classes of proteins embedded in the surface membrane of all cells and are responsible for mediating much of the biological signaling at the cellular level. We believe that our proprietary drug discovery technology and approach addresses many of the inefficiencies associated with traditional GPCR and ion channel-targeted drug discovery. By integrating computer-based, or *in silico*, technology with in-house medicinal chemistry, we believe that we can rapidly identify and optimize highly selective drug candidates. We focus on GPCR and ion channel drug targets whose role in disease has already been demonstrated in clinical trials or in preclinical studies. In each of our four clinical-stage therapeutic programs, we used our drug discovery technology and approach to optimize a lead compound into a clinical drug candidate in less than ten months, synthesizing fewer than 80 compounds per program. We moved each of these drug candidates into clinical trials in less than 18 months from lead identification. We believe our drug discovery technology and approach enables us to efficiently and cost-effectively discover and develop GPCR and ion channel-targeted drugs.

OUR PRODUCT CANDIDATES

Through the application of our GPCR and ion channel drug discovery expertise, over the past four years we have created a pipeline of drug candidates designed to address diseases with significant unmet medical needs and commercial potential across a range of therapeutic areas. The following chart summarizes the status of our clinical drug development programs:

Table of Contents

THERAPEUTICS

PRX-08066 for Pulmonary Hypertension

PRX-08066 is a novel, highly selective, small-molecule inhibitor, or antagonist, of a specific GPCR known as 5-HT2B. We are developing PRX-08066 for the treatment of two types of pulmonary hypertension: pulmonary arterial hypertension; and pulmonary hypertension associated with chronic obstructive pulmonary disease. Pulmonary hypertension (PH) in general is a serious, often fatal cardiovascular disease characterized by elevation of pulmonary blood pressure and progressive thickening and narrowing of the blood vessels of the lungs, often leading to heart failure.

We initiated a Phase 2 trial of PRX-08066 in pulmonary hypertension associated with chronic obstructive pulmonary disease (COPD) in August 2006. This randomized, double-blind, placebo-controlled Phase 2 trial is expected to enroll approximately 72 patients with PH associated with COPD. The primary endpoint of the trial is to assess the effect of PRX-08066 compared to placebo on systolic pulmonary artery pressure in patients with PH associated with COPD following two weeks of treatment. The trial is also designed to assess the safety and tolerability of PRX-08066 during the course of therapy. We have completed three Phase 1 clinical trials of PRX-08066 in healthy volunteers, including a Phase 1b clinical trial in athletes conditioned to exercise at high altitudes. Results from the Phase 1b trial showed that, compared with placebo, PRX-08066 caused a statistically significant reduction in the increase in systolic pulmonary blood pressure observed during exercise in volunteers breathing low oxygen, compared to placebo. In the two earlier Phase 1 trials as well as the Phase 1b trial, PRX-08066 was well-tolerated, with a half-life of approximately 16 hours, supporting once daily oral dosing. To date, there have been no serious adverse events associated with treatment with PRX-08066.

PRX-00023 for Depression

We are currently developing PRX-00023, a novel, highly selective, small-molecule 5-HT1A agonist for the treatment of depression. In September 2006 we completed a pivotal Phase 3 clinical trial for the treatment of generalized anxiety disorder with PRX-00023. Results from this trial demonstrated that PRX-00023 did not achieve a statistically significant improvement over placebo for the primary endpoint of efficacy with respect to generalized anxiety disorder at the dose tested (80mg once daily). The trial was statistically powered to evaluate the efficacy of PRX-00023 compared to placebo as measured by the change from baseline in the Hamilton Rating Scale for Anxiety (HAM-A). The HAM-A scale is the accepted standard for the evaluation of anti-anxiety drug activity by the U.S. Food and Drug Administration (FDA). Effects of PRX-00023 on symptoms of depression, which was a secondary endpoint of the Phase 3 clinical trial, were assessed using the Montgomery Asberg Depression Rating Scale (MADRS), the FDA-recommended assessment for depression. The data from this trial showed a statistically significant improvement from baseline with PRX-00023 treatment compared to placebo in the MADRAS score, indicating that PRX-00023 reduced symptoms of depression present in the patients in this trial. In this Phase 3 trial, PRX-00023 was well tolerated, and the rate of discontinuation due to adverse events was very low (1.4% with PRX-00023 vs. 2.9% with placebo). To date, there have been no serious adverse events associated with treatment in more than 250 subjects who have received PRX-00023.

Based on the Phase 3 trial results, we have discontinued clinical development of PRX-00023 at a dose of 80mg once daily in generalized anxiety disorder. We are currently focusing our development efforts for this drug candidate on depression**.** We plan to initiate a randomized, blinded Phase 2 clinical trial of PRX-00023 in major depression in the first half of 2007.

Table of Contents

The Phase 3 trial was a double-blind, placebo-controlled, multi-center study with approximately 310 patients diagnosed with moderate-to-severe generalized anxiety disorder. Patients with co-morbid depressive symptoms were allowed to enroll in this trial; however, patients with a primary diagnosis of major depression were not enrolled. The trial included 25 sites in the United States. Patients were randomized equally into one of two arms: treatment with PRX-00023; or placebo. The trial protocol was oral dosing with PRX-00023 at 40 mg once daily for the first three days, followed by 80 mg once daily for the remainder of the study. The primary objective was to evaluate the efficacy of PRX-00023 as measured by the change from baseline in the HAM-A scale compared to placebo after eight weeks, with additional evaluations of HAM-A at weeks 2, 4 and 6. The trial was statistically powered to detect an approximately two point difference in the change from baseline in HAM-A score with PRX-00023 treatment vs. placebo. Patients were not permitted to take any other psychiatric medications during the trial.

The preliminary Phase 3 trial data indicate the mean HAM-A score change from baseline to week eight with PRX-00023 treatment was 9.8, compared to a mean HAM-A score change of 8.5 from baseline to week eight with placebo. This result corresponds to a measure of probability, or p-value, of 0.116 (p=0.116), which is not statistically significant. A p-value represents the probability that a difference observed between groups during an experiment happened by chance. For example, a p-value of p=0.05 means there is a 5% probability that the result occurred by chance. In general, clinical scientists regard p-values of less than 0.05 to be statistically significant , and p-values greater than 0.05 to be insignificant. On the pre-specified secondary endpoint of change in MADRS, an index of depressive symptoms, there was a highly statistically significant (p=0.009) change from baseline to week eight with PRX-00023 treatment compared to placebo. There was also a trend toward improvement in symptoms of depression by week four, but this result did not reach statistical significance (p=0.06). Other assessments of drug activity on anxiety and depression (Hospital Anxiety and Depression scale (HADS) and Profile of Mood States scale (POMS)) also showed positive trends in efficacy, with HADS data showing more effect on symptoms of depression than on anxiety; these effects were not statistically significant, however. Patients in the trial with high MADRS scores at baseline (upper half) had a statistically significant improvement on symptoms of depression, as demonstrated by a mean MADRS reduction of 6.3 with PRX-00023 treatment at week 8 compared to a mean MADRS reduction of 3.3 with placebo (p=0.041). While these data are preliminary and continue to be analyzed, we believe that they are encouraging regarding the potential efficacy of PRX-00023 for the treatment of major depression.

PRX-03140 for Alzheimer s disease

PRX-03140 is a novel, highly selective, small-molecule 5-HT4 agonist that we are developing for the treatment of Alzheimer s disease. PRX-03140 is being developed to provide improved cognition and to slow Alzheimer s disease progression. We completed a Phase 1b clinical trial in Alzheimer s disease patients with PRX-03140 in September 2005. PRX-03140 was well tolerated in this trial and also in two additional Phase 1 clinical trials in healthy adult and elderly volunteers. In the 14-day Phase 1b clinical trial in patients with mild-to-moderate Alzheimer s disease, treatment with PRX-03140 resulted in changes in brain wave activity in these patients that are consistent with those seen in clinical trials with currently approved drugs for Alzheimer s disease. In several pre-clinical animal models, PRX-03140 enhanced cognition and exhibited trends towards reduced levels of beta amyloid, or Ab, a protein that is believed to be associated with Alzheimer s disease progression. In addition, in a pre-clinical animal model of memory impairment, PRX-03140 demonstrated synergistic activity when combined with two different acetylcholinesterase inhibitors, which are approved by FDA for the treatment of Alzheimer s disease. These results are based on pre-clinical animal studies and a small number of patients in Phase 1 clinical trials and are not necessarily predictive of results in later-stage clinical trials with larger and more diverse patient populations. We expect to initiate a Phase 2 trial of PRX-03140 in combination with an approved drug for Alzheimer s disease (the cholinesterase inhibitor Aricept® (donepezil)) in patients with Alzheimer s disease in the fourth quarter of 2006.

PRX-07034 for Obesity and Cognitive Impairment

PRX-07034 is a novel, highly selective, small-molecule antagonist of a specific GPCR known as 5-HT6. PRX-07034 is being developed for the treatment of obesity as well as cognitive impairment (associated with Alzheimer s disease or schizophrenia). Pre-clinical animal models of obesity suggest that this drug candidate may reduce both food intake and body weight. In addition, pre-clinical animal models of memory impairment suggest that PRX-07034 may have cognitive-enhancing properties. In October 2006, we initiated a Phase 1 multiple ascending

dose clinical trial to study the safety, tolerability, pharmacokinetics, and pharmacodynamics of PRX-07034 administered once-daily for 28 days in a population of otherwise healthy obese adults with body mass indices (BMI) between 30 and 42 kg/m^2. Normal BMI is less than 25 kg/m^2. Preliminary safety and tolerability data from a recently completed single ascending dose Phase 1 trial in healthy adult male and female volunteers indicated that single doses of PRX-07034 were well-tolerated up to 2500 mg, the highest dose tested. In addition, PRX-07034 demonstrated adequate absorption, with drug exposures increasing with increasing doses and a half-life of 14 to 24 hours, which we believe may make PRX-07034 suitable for once-daily oral dosing.

IMAGING AGENTS

Vasovist

Vasovist is an internally discovered, injectable intravascular contrast agent that is designed to provide improved imaging of the vascular system using magnetic resonance angiography (MRA). Our initial target indication for Vasovist is for use in MRA

Table of Contents

imaging of peripheral vascular disease, with a goal of improving the physician s ability to visualize the human vascular system and thereby enhance disease diagnosis and treatment.

Vasovist reversibly binds to the human blood protein albumin, allowing imaging of the blood vessels for approximately an hour after administration. With a single injection, Vasovist enables the capture of three-dimensional images of arteries and veins in the body. Vasovist may make it possible for physicians to detect vascular disease earlier, more safely and less invasively than with X-ray angiography, and for physicians to provide an improved evaluation of potential therapeutic options including percutaneous intervention and vascular surgery.

In October 2005, the European Medicines Agency granted marketing approval of Vasovist for all 25 member states of the European Union. Schering AG, Germany, our partner for Vasovist, began marketing Vasovist in Europe in the second quarter of 2006. Vasovist is currently marketed in the Netherlands, Norway, Sweden, Denmark, United Kingdom, Austria and Germany. In 2006, Vasovist was also approved for marketing in Switzerland, Australia, Iceland, Norway and, most recently, Canada.

In December 2003, we submitted a New Drug Application (NDA) to the FDA for the use of Vasovist in detection of vascular disease. In January 2005, we received an approvable letter from the FDA for Vasovist pending additional clinical trials. In May 2005, we submitted a response to the FDA, which was accepted as a complete response the following month. We received a second approvable letter from the FDA in November 2005. We met with the FDA twice in early 2006 to discuss the approvable letters and the path forward for Vasovist in the United States. After considering the parameters of the additional clinical trials requested by the FDA, we filed a formal appeal with the FDA requesting approval of Vasovist, as well as the use of an advisory committee as part of the appeal process. In August 2006, we received a letter from the FDA denying our formal appeal to approve Vasovist and our request for an advisory committee to review Vasovist. In its response letter, the Office of New Drugs (OND) of the FDA also suggested that if we decide to conduct additional clinical research to support approval, then rather than relying on a blinded re-read of previously submitted data and data from a new clinical trial, a safer course of action would be to conduct two new clinical trials to support the application for approval. We have met with the FDA since receiving the August 2006 response letter and are currently in dialogue with the FDA regarding the path forward for Vasovist in the United States.

EP-2104R

We have developed a second targeted contrast agent product candidate, EP-2104R, which is designed to enable the identification of blood clots using MRI. Finding blood clots is of critical medical significance in the evaluation and diagnosis of patients with possible stroke, transient ischemic attack, chest pain, heart attack, irregular heartbeat, deep vein thrombosis and pulmonary embolism. We designed EP-2104R to bind reversibly to fibrin, the dominant protein found in blood clots. In pre-clinical studies, EP-2104R has been shown to enhance the ability of MRI to image clots throughout the vascular system. In 2004, we completed Phase 1 clinical trials of EP-2104R in which it was well-tolerated in healthy volunteers.

EP-2104R entered a Phase 2a clinical trial in April 2005. In July 2005, we announced that we would be amending our Phase 2a proof-of-concept clinical trial protocols for EP-2104R to include additional patient safety monitoring based on a review by the FDA of observations from a 14-day, repeat dose pre-clinical toxicology study. We believe that these observations, which were evident in both treated and untreated test animals, were not related to EP-2104R. We accelerated the enrollment in the Phase 2a trial and completed the trial in the second quarter of 2006. In this study, we have seen encouraging images, which may be indicative of EP-2104R s potential utility for identifying patients at risk of acute thrombotic events, such as stroke and transient ischemic attack. The data from the Phase 2a clinical trial will be presented at the annual meeting of the Radiological Society of North America (RSNA) in November 2006.

Schering AG had an option to license and develop EP-2104R, which, in 2006, it determined not to exercise. We do not intend to conduct additional clinical studies on EP-2104R utilizing internal resources and, accordingly, we are pursuing a collaboration for the continued development of EP-2104R.

Table of Contents

OUR DRUG DISCOVERY TECHNOLOGY AND APPROACH

We have developed a novel and proprietary *in silico* protein structure-based approach to GPCR and ion channel-targeted drug discovery that allows us to benefit from the structure-based approach in the absence of experimentally-determined structures for these targets. Our PREDICT technology combines genomic information (the amino acid sequence of the target protein) with physical and chemical properties of the cell membrane environment to determine the most stable 3D structure of a membrane-bound protein. The use of our PREDICT technology to determine a 3D structure of the target protein is the foundation and first step in our novel system of discovery and optimization for GPCR and ion channel-targeted drugs. We maintain our GPCR and ion channel structures as trade secrets, which, when combined with our proprietary software and the know-how required to use the PREDICT technology, we believe creates a strong barrier to entry for our competitors.

Using our proprietary drug discovery technology and approach requires the successive application of the following five steps: (1) using our PREDICT technology to identify the most stable 3D structure of the desired GPCR or ion channel drug target, bypassing the need for X-ray crystallography, (2) analyzing the resulting 3D structure and identifying a potential binding site on the target structure for drug interaction, (3) performing *in silico* screening using the computer to virtually fit more than two million drug-like compounds into this drug site, ensuring that both the shape and chemical properties of the binding site and the compound match, (4) selecting the approximately 100-200 compounds that best match the binding site on the target and testing their activity *in vitro* in the laboratory and (5) identifying the most active and novel chemical compounds, referred to as lead compounds, and then subjecting these lead compounds to an integrated structure-based lead optimization process. The PREDICT-generated 3D structure of the target protein as well as other 3D protein structures (many of which are also generated by PREDICT) and more traditional medicinal chemistry efforts are used to steer lead optimization along the most efficient path, transforming lead compounds into drug candidates expeditiously. Our discovery and optimization process is outlined in the following steps:

PREDICT-3D *in silico* modeling. We have developed novel proprietary algorithms which we use in our PREDICT technology to model the 3D structure of targets of interest (GPCRs and ion channel proteins) from their primary amino acid sequence. PREDICT uses algorithms that explore a large number of possible structures of the target and then selects the biologically relevant one. It takes into account specific interactions between the target protein and the membrane, specific interactions within the target protein itself, and addresses the limitations that hamper homology-based modeling of GPCRs and ion channel proteins. The PREDICT software code and many of its algorithms are kept as trade secrets, making it difficult to copy or reverse- engineer. We filed patent applications for PREDICT version 1.0 in 2000. The current version of PREDICT is highly advanced from the original version and includes numerous new algorithms and capabilities. PREDICT bypasses the need for X-ray crystallography structures of the GPCR or ion channel protein target to initiate a structure-based discovery program.

Virtual libraries. Our libraries consist of virtual versions of more than two million drug-like compounds which are available for purchase from commercial vendors worldwide. These virtual libraries reduce the need for us to synthesize or purchase, store and maintain tens or hundreds of thousands of actual compounds for the initial screening.

Rapid *in silico* screening. The process of *in silico* screening requires the computer to perform trillions of operations in trying to fit numerous drug-like compounds into the binding site of the target protein, matching both shape and chemical properties. We perform high-throughput *in silico* screening with a combination of proprietary and public software to identify compounds that may bind to a target GPCR or ion channel protein.

Ranking of screening results. We have developed proprietary algorithms for ranking our *in silico* screening results using internally developed tools, which we believe enables us to select the

100-200 most promising compounds for *in vitro* testing.

Integrated structure-based lead optimization. The most promising novel lead compounds, identified *in silico* and shown to have binding affinity and functionality *in vitro*, are optimized into drug candidates using an integrated structure-based approach. This process makes use of the PREDICT 3D structures (of the drug target and related off-target proteins) as well as many other *in silico* tools that we have created to enable efficient structure-based lead optimization, leading to highly selective drug candidates. These tools allow us to overcome challenges frequently encountered during lead optimization, such as selectivity, blood-brain barrier penetration and hERG ion channel binding, in a fraction of the time and cost compared to traditional lead optimization efforts. Using these *in silico* tools, our computational and medicinal chemists are able to select for actual synthesis the most promising subset of suggested compounds for further optimization. In each of our clinical-stage programs, this approach has allowed us to synthesize less than 10% of the compounds than we believe would have been synthesized if we were to follow the traditional methods of lead optimization.

STRATEGIC ALLIANCES AND COLLABORATIONS

Ramot

Our proprietary drug discovery technology and approach is in part embodied in technology that we license from Ramot at Tel Aviv University Ltd., the technology transfer company of Tel Aviv University. Pursuant to this license, we have exclusive, worldwide rights to certain technology developed at Tel Aviv University to develop, commercialize and sell products for the treatment of diseases

or conditions in humans and animals. The licensed technology, as continually modified, added to and enhanced by us, consists in large part of computer-based models of biological receptors and methods of designing drugs to bind to those receptors.

All of our current clinical-stage therapeutic drug candidates, PRX-00023, PRX-03140, PRX-08066 and PRX-07034, were, at least in part, identified, characterized or developed using the licensed technology, and we would be required to make payments to Ramot, as described below, as and when rights to any such drug candidates are ever sublicensed or any such drug candidates are commercialized. In addition, we have used the licensed technology in all of our preclinical-stage programs, except for our atrial fibrillation program, and would expect to make payments to Ramot if rights to any drug candidates were ever commercialized from any of these programs. Two of our employees, Oren Becker, Chief Scientific Officer, and Sharon Shacham, Vice President, Product Leader, were inventors of the technology that we license from Ramot. We believe that Ramot shares a portion of any royalty income received with the respective inventors and, accordingly, these employees receive a portion of the amounts we pay Ramot.

We paid Ramot an upfront fee of $40,000 upon the grant of the license. Under the license, we have an obligation to make royalty payments to Ramot on our net sales of products that are identified, characterized or developed through the use of the licensed technology that are either 1.5% or 2.5% of such net sales (depending upon the degree to which the product needed to be modified after being identified, characterized or developed through the use of the licensed technology) and decrease as the volume of sales increases. The royalty obligation for each product expires on a country-by-country basis twelve years after the first commercial sale. There is also an annual minimum royalty payment obligation of $10,000 per year due beginning December 31, 2005.

We also are required to share between 5% and 10% of the consideration we receive from parties to whom we grant sublicenses of rights in the Ramot technology or sublicenses of rights in products identified, characterized or developed with the use of such technology and between 2% and 4% of consideration we receive from performing services using such technology. As such a sublicense, in connection with our collaborations with Cystic Fibrosis Foundation Therapeutics Incorporated and Amgen Inc., we paid $212,500 and $1,000,000, respectively, of the total upfront and milestone payments received to date under these license agreements to Ramot.

The license may be terminated by either party upon a material breach by the other party unless cured within 30 days, in the case of a payment breach, and 90 days in the case of any other breach. The license may also be terminated by either party in connection with the bankruptcy or insolvency of the other party. The license expires upon the expiration of our obligation to make payments to Ramot. Therefore, since we have an ongoing obligation to pay annual minimum royalties to Ramot as described above, the license may not expire and may only terminate upon a breach by, or bankruptcy of, a party.

Amgen

On July 31, 2006, we entered into an exclusive license agreement with Amgen Inc. to develop and commercialize products based on our pre-clinical compounds that modulate the S1P1 receptor and compounds and products that may be identified by or acquired by Amgen and that modulate the S1P1 receptor. The S1P1 receptor is a biological receptor that is associated with certain autoimmune diseases, such as rheumatoid arthritis and multiple sclerosis.

Pursuant to the license agreement, we granted Amgen an exclusive worldwide license to our intellectual property and know-how related to the compounds in our S1P1 program that modulate the S1P1 receptor, for the development and commercialization of those compounds and other compounds and products that modulate the S1P1 receptor. Amgen has limited rights to sublicense its rights under the license. In return for the license, Amgen paid us a nonrefundable, up-front payment of $20 million and royalties based on aggregate annual net sales of all S1P1-receptor-modulating products developed by Amgen under the license agreement. In addition, we may be eligible for up to an aggregate of $287.5 million of nonrefundable milestone payments that relate to milestones associated with the commencement of clinical trials, regulatory approvals and annual net sales thresholds of the products under the license agreement. These royalty rates and milestone amounts are subject to reduction in the event that, among other things:

Amgen is required to obtain third-party rights to develop and commercialize a product that incorporates an EPIX compound; and

Amgen develops and commercializes products that are not covered by the intellectual property rights we licensed to Amgen, such as for example, S1P1-modulating products that may be acquired by Amgen from a third party.

Generally, Amgen s royalty obligation under the agreement terminates on a product-by-product and country-by-country basis upon the later of (a) the expiration or termination of the last claim within the patents (whether such patents are patents EPIX licensed to Amgen or are patents owned or in-licensed by Amgen) covering such product and (b) ten years following the first commercial sale of the product. The agreement expires when all of Amgen s royalty obligations have terminated.

We have the option to co-promote one product from the collaboration in the United States for one indication to be jointly selected by EPIX and Amgen. During the first 15 months of the agreement, we will design, discover and develop, at our own cost, additional compounds that modulate the S1P1 receptor and that are within the same family of compounds as those identified in our patent applications licensed to Amgen under the agreement. The collaboration agreement provides Amgen with a license to these additional compounds to further its development efforts. We may undertake additional research under the agreement, at our own

expense, as approved by a joint steering committee formed pursuant to the agreement. We have responsibility and control for filing, prosecution or maintenance for any of our patents licensed to Amgen for 24 months or until start of Phase 1 clinical trials for the first product developed under the agreement, at which time, responsibility and control of such patents transfers to Amgen. Amgen has responsibility and control for filing, prosecution or maintenance for all other patents covered by the agreement, including patents jointly developed under the agreement. Amgen will have final decision making authority on all other research matters and will be responsible for non-clinical and clinical development, manufacturing, regulatory activities and commercialization of the compounds and products developed under the license agreement, at its own expense.

The parties each have the right to terminate the agreement (in whole or for specified products or countries, depending upon the circumstances) upon a material uncured breach by the other party and Amgen has the right to terminate the agreement for convenience upon varying periods of at least three months advance notice. Upon a termination of the agreement, depending upon the circumstances, the parties have varying rights and obligations with respect to the grant of continuing license rights, continued commercialization rights and continuing royalty obligations.

Schering AG

In June 2000, we entered into a strategic collaboration agreement with Schering AG pursuant to which we granted Schering AG an exclusive license to co-develop and market Vasovist worldwide, excluding Japan. In December 2000, we amended this strategic collaboration agreement to grant to Schering AG the exclusive rights to develop and market Vasovist in Japan. Generally, each party to the agreement will share equally in Vasovist costs and profits in the United States. Under the agreement, we retained responsibility for completing clinical trials and filing for FDA approval in the United States and Schering AG leads clinical and regulatory activities for the product outside the United States. In addition, we granted Schering AG an exclusive option to develop and market an unspecified vascular MRI blood pool agent from our product pipeline. In connection with this strategic collaboration and the amendment to our strategic collaboration agreement with Tyco/ Mallinckrodt, as further described below, Schering AG paid us an up-front fee of $10.0 million, which we then paid to Tyco/ Mallinckrodt. Under the agreement, Schering AG also paid us $20.0 million in exchange for shares of our common stock through its affiliate, Schering AG Berlin Venture Corporation, or Schering AG BV. We may receive up to an additional $28.8 million in milestone payments under the strategic collaboration agreement, of which $5.5 million has been paid to date and up to an additional $1.3 million may be earned upon U.S. product approval. We also are entitled to receive a royalty on products sold outside the United States and, if and when Vasovist is launched in the United States, a percentage of Schering AG s operating profit margin on products sold in the United States.

Under the terms of the strategic collaboration agreement with Schering AG, either party may terminate the agreement upon thirty days notice if there is a material breach of the contract. In addition, Schering AG may terminate the agreement at any time on a region-by-region basis or in its entirety, upon six months written notice to us; and we may terminate the agreement with respect to development of Vasovist in the European Union at any time upon 90 days written notice to Schering AG, if Schering AG has failed to meet its obligations in connection with the regulatory approval of Vasovist in the European Union.

In May 2003, we announced a broad alliance with Schering AG for the discovery, development and commercialization of molecularly-targeted contrast agents for MRI. The alliance was composed of two areas of collaboration, with one agreement generally providing for exclusive development and commercialization collaboration for EP-2104R, our product candidate for the detection of thrombus, and the second agreement covering an exclusive research collaboration to discover novel compounds for diagnosing human disease using MRI. Under the first agreement, Schering AG had an option to the late stage development and worldwide marketing rights for EP-2104R. On July 12, 2006, Schering AG notified us that it declined to exercise this option. As a result, we retain commercial rights to EP-2104R. In the event EP-2104R is commercialized, we are obligated to pay Schering AG a minimal royalty limited to a portion of the funding we received for this program from Schering AG. The second agreement related to the broader research collaboration expired in May 2013 but the on-going research jointly pursued under the research collaboration agreement concluded in May 2006. We are currently discussing with Schering AG the winding up of activities and the allocation of rights to intellectual property generated during the research effort.

On May 8, 2000, we granted to Schering AG a worldwide, royalty-bearing license to patents covering Schering AG s development project, Primovist, an MRI contrast agent for imaging the liver, that was approved in the European Union in 2004. Under this agreement, Schering AG is required to pay us royalties based on sales of products covered by this agreement. This agreement expires upon the last-to-expire patent covered by the agreement unless terminated earlier by either party because of the material breach of the agreement by the other party. Also on May 8, 2000, Schering AG granted us a non-exclusive, royalty-bearing license to certain of its Japanese patents. We agreed to withdraw our invalidation claim of Schering AG s Japanese patent 1,932,626 in the Japanese Patent Office pursuant to this license agreement. Under this agreement, we are required to pay Schering AG royalties based on sales of products covered by this agreement. This agreement expires upon the last-to-expire patent covered by the agreement unless terminated earlier by either party because of the material breach of the agreement by the other party.

Tyco/ Mallinckrodt

In June 2000, in connection with the exclusive license that we granted to Schering AG under our strategic collaboration agreement, we amended our strategic collaboration with Tyco/ Mallinckrodt. The amendment enabled us to sublicense certain technology from Tyco/ Mallinckrodt to Schering AG which allowed us to enter into the strategic collaboration agreement for Vasovist

with Schering AG. Pursuant to that amendment, we also granted to Tyco/ Mallinckrodt a non-exclusive, worldwide license to manufacture Vasovist for clinical development and commercial use on behalf of Schering AG in accordance with a manufacturing agreement entered into in June 2000 between Tyco/ Mallinckrodt and Schering AG. In connection with this amendment, we paid Tyco/ Mallinckrodt an up-front fee of $10.0 million and are obligated to pay up to an additional $5.0 million in milestone payments, of which $2.5 million was paid following NDA filing in February 2004 and $2.5 million will be paid upon U.S. product approval. We will also pay Tyco/ Mallinckrodt a share of our Vasovist operating profit margins in the United States and a percentage of the royalty that we receive from Schering AG on Vasovist gross profits outside the United States.

Massachusetts General Hospital

In July 1995, we entered into a license agreement with MGH pursuant to which MGH granted us an exclusive worldwide license to patents and patent applications which relate to Vasovist. The MGH license imposed certain due diligence obligations with respect to the development of products covered by the license, all of which have been fulfilled to date. The MGH license requires us to pay royalties on the net sales of products covered by this license, including Primovist, MultiHance and Vasovist. We have paid MGH approximately $500,000 in royalty payments, primarily related to the sale of Primovist and MultiHance, through the third quarter of 2006 under this license agreement. The license agreement expires on a country-by-country basis when the patents covered by the license agreement expire. For example, the patents covered by this license agreement are currently expected to expire in November 2006, although the life of these patents may be extended. The license agreement does not contain a renewal provision. We believe that the expiration of these patents does not compromise our proprietary position with respect to Vasovist because Vasovist is covered by composition of matter patents independent of our license with MGH. These composition of matter patents extend into 2015 in the United States, although the life of these patents may be extended.

Prince

In November 2003, we entered into an intellectual property agreement with Dr. Martin R. Prince, an early innovator in the field of magnetic resonance angiography relating to dynamic magnetic resonance angiography, which involves capturing magnetic resonance angiography images during the limited time, typically 30 to 60 seconds, available for imaging with extracellular agents. Under the terms of the intellectual property agreement, Dr. Prince granted us certain discharges, licenses and releases in connection with the historic and future use of Vasovist by us and agreed not to sue us for intellectual property infringement related to the use of Vasovist. In consideration of Dr. Prince entering into the agreement, we agreed to pay him an upfront fee of $850,000 and royalties on sales of Vasovist consistent with a non-exclusive early stage academic license and agreed to deliver to him 132,000 shares of our common stock with a value of approximately $2.3 million based on the closing price of our common stock on the date of the agreement. In addition, we agreed to supply Dr. Prince with approximately $140,000 worth of Vasovist per year during the term of the agreement. The agreement expires upon the expiration of the last patent under the agreement. The agreement is subject to termination by either party upon the incurred material branch of the agreement by the other party.

Cystic Fibrosis Foundation Therapeutics Incorporated

In March 2005, Predix entered into a research, development and commercialization agreement with Cystic Fibrosis Foundation Therapeutics Incorporated, or CFFT, the drug discovery and development affiliate of the Cystic Fibrosis Foundation. In August 2006, we expanded the research, development and commercialization agreement with CFFT. Under the terms of the amended agreement, we may be eligible for up to an additional $3.5 million in research funding and milestone payments, bringing the total value of our research collaboration with CFFT to $16 million.

Through September 30, 2006, we have received approximately $7.6 million from CFFT under this agreement, consisting of a $2.0 million upfront payment, approximately $3.4 million of reimbursed research and development costs and milestone payments totaling approximately $2.2 million. The milestone payments, which were earned in July and August 2006, relate to the first development program described below. Including the payments already received, we may receive up to an aggregate of $16.0 million from CFFT under this agreement. The agreement involves two development programs as follows:

The first program is focused on correcting a malfunction of the Cystic Fibrosis Transmembrane conductance Regulator, or CFTR, ion channel protein. We are using our proprietary structure-based technologies to model the structure of this ion channel protein target and identify binding sites in the channel for therapeutic intervention. Once these sites are identified, we aim to use our drug discovery capabilities to discover a drug that restores proper functionality to the channel in patients with cystic fibrosis. If the preliminary program is successful, we and CFFT have agreed to negotiate towards a follow-on agreement under which we will explore a structure-based approach for the discovery and commercialization of a drug that will target CFTR, with the financial support of CFFT and subject to a royalty payable to CFFT.

The second program is focused on the discovery of a small-molecule agonist to the G-Protein Coupled Receptor known as P2Y(2), which plays a role in cystic fibrosis, using our proprietary structure-based drug design system. We retain the right to develop and commercialize any drug candidates discovered through this second program, and are obligated to make aggregate royalty payments of up to $15 million to CFFT for the first drug candidate that reaches particular regulatory and sales milestones.

Table of Contents

The agreement expires with respect to the first program on August 2, 2009 and with respect to the second program on March 7, 2007, unless extended by the parties or terminated by either party beforehand. CFFT may terminate either or both programs without cause upon 120 days notice or if we suspend or discontinue our business. Either party may terminate the agreement for an uncured material breach.

COMPETITION

We face, and will continue to face, intense competition from pharmaceutical and biotechnology companies, as well as numerous academic and research institutions and governmental agencies engaged in drug discovery activities or funding, both in the United States and abroad. Some of these competitors are pursuing the development of product candidates that target the same indications that we are targeting for our clinical and pre-clinical programs. Even if we and our collaborators are successful in developing our clinical-stage candidates, the resulting products will compete with a variety of established products.

Significant competitors in the area of GPCR-focused drug discovery include Arena Pharmaceuticals, Acadia Pharmaceuticals and 7TM Pharma, and for ion channels our competitors include Icagen, Cardiome and Vertex Pharmaceuticals. In addition, most large pharmaceutical companies have drug discovery programs that target GPCRs and ion channels.

Many of our competitors have significantly greater financial, manufacturing, marketing and product development experience and resources than we do. These companies also have significantly greater research and development capabilities than we do, and have significantly greater experience than we do in preclinical and clinical trials of potential pharmaceutical products, and in obtaining FDA and other regulatory clearances. Our commercial opportunity will be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer side effects or are less expensive than any products that we may develop.

If our six clinical-stage drug candidates are approved, they will compete with currently approved drugs and potentially with drug candidates currently in development for the same indications, including the following:

PRX-08066. If approved, PRX-08066, the drug candidate we are developing for the treatment of pulmonary arterial hypertension (PAH), will compete with approved products from such pharmaceutical companies as Actelion, CoTherix, GlaxoSmithKline, Pfizer and United Therapeutics, and may compete with drug candidates in clinical development by other companies, such as Encysive Pharmaceuticals and Myogen.

PRX-00023. If approved, PRX-00023, the drug candidate we are developing for the treatment of depression, will compete with approved products from such pharmaceutical companies as Forest Laboratories, GlaxoSmithKline, Pfizer and Wyeth, and may compete with drug candidates in clinical development from other companies, including Sanofi-Aventis and Fabre-Kramer.

PRX-03140. If approved, PRX-03140, the drug candidate we are developing for the treatment of Alzheimer s disease, will compete with approved products from such pharmaceutical companies as Forest Laboratories, Johnson & Johnson, Novartis and Pfizer, and may compete with drug candidates in clinical development from other companies, including Myriad Genetics and Neurochem Inc.

PRX-07034. If approved for the treatment of obesity, PRX-07034 will compete with approved products from such pharmaceutical companies as Abbott Laboratories and Roche, and may compete with several therapeutic product candidates in clinical development by other companies, such as Sanofi-Aventis and Arena Pharmaceuticals. If approved for the treatment of cognitive impairment (associated with Alzheimer s disease or schizophrenia), PRX-07034 will compete with approved products from such pharmaceutical companies as Forest Laboratories, Johnson & Johnson, Novartis and Pfizer, and may compete with several therapeutic product candidates in clinical development from other companies, including GlaxoSmithKline and Saegis Pharmaceuticals.

Vasovist and EP-2104R. There are a number of general use MRI agents approved for marketing in the United States and in certain foreign markets that, if used or developed for MR angiography, are likely to compete with

Vasovist. Such products include Magnevist® and Gadovist® by Schering AG, Dotarem® by Guerbet, S.A., Omniscan® by GE Healthcare, ProHance® and MultiHance® by Bracco and OptiMARK® by Tyco/ Mallinckrodt. We are aware of five agents under clinical development that have been or are being evaluated for use in MRA: Schering AG s Gadomer and SHU555C, Guerbet s Vistarem, Bracco s B-22956/1, Ferropharm s Code VSOP-C184, and Advanced Magnetics Ferumoxytol. We are aware of no MRI contrast agent other than EP-2104R being developed for use in imaging blood clots. In addition to competition within the MRI field, we also face competition from other imaging technologies, including CT scans, ultrasounds, and X-ray scans. Our success will depend on physician acceptance of MRI as a primary imaging modality for certain vascular and other applications.

Table of Contents

MARKETING, SALES AND DISTRIBUTION

We currently have no marketing, sales or distribution capabilities. To commercialize any of our drug candidates or imaging products, we must develop these capabilities internally or through collaboration with pharmaceutical or biotechnology companies. In selected indications where we believe that our products can be commercialized by a specialty sales force that calls on a limited but focused group of physicians, we may commercialize our products in the United States. For example, we believe that pulmonary specialists who treat pulmonary hypertension, and the centers in which they practice, are sufficiently concentrated to enable us to effectively promote PRX-08066, if approved by the FDA, to this market in the United States with a small internal sales force. In therapeutic or diagnostic areas that require a large sales force selling to a large and diverse prescribing population and for markets outside of the United States, we plan to establish collaborations with pharmaceutical or biotechnology companies for commercialization of our drug candidates.

MANUFACTURING

We outsource and plan to continue to outsource manufacturing responsibilities to third parties for our existing and future drug candidates for clinical development and commercial purposes. Schering AG is responsible for the manufacture of Vasovist. Schering AG relies on Tyco/ Mallinckrodt as the sole manufacturer of Vasovist for human clinical trials and commercial use. Together with Schering AG, EPIX is considering alternative manufacturing arrangements for Vasovist for commercial use, including the transfer of manufacturing to Schering AG. In the event that Tyco/ Mallinckrodt fails to fulfill its manufacturing responsibilities satisfactorily, Schering AG has the right to purchase Vasovist from a third party or to manufacture the compound itself. In addition, we currently rely on Aptuit, Inc. for our therapeutic drug product manufacturing and testing, and on Johnson Matthey Pharma Services for the manufacture and testing of our active therapeutic pharmaceutical ingredients. Our agreements with these suppliers generally operate on a work order basis, with no minimum purchase requirements and are generally terminable by us upon 60 days and 90 days prior written notice, respectively. Small amounts of material used for pre-clinical research and development purposes are synthesized in-house. The production of our drug candidates PRX-00023, PRX-03140, PRX-08066 and PRX-07034 uses small-molecule synthetic organic chemistry procedures that are standard in the pharmaceutical industry. We are currently working with our contract manufacturers to produce sufficient quantities of the active pharmaceutical ingredient and drug product in each of our programs for our planned clinical trials in 2006. If one of our manufacturers for our therapeutic product candidates should become unavailable to it for any reason, we believe that there are a number of potential replacements as our processes are not manufacturer-specific, though we may incur some added cost and delay in identifying or qualifying such replacements, including delays associated with the need for FDA review and approval of the new manufacturer, as well as those associated with the new manufacturer s ability to establish the manufacturing process.

PRX-00023, PRX-03140, PRX-08066 and PRX-07034 are manufactured in a straightforward synthetic process from readily available starting materials. There are no complicated chemistries or unusual equipment required in the manufacturing process of these drug candidates.

PRX-00023, PRX-03140, PRX-08066 and PRX-07034 are all currently administered as unformulated drug products. A commercially viable formulation will need to be developed, manufactured and certified for each of these drug candidates. The final commercial formulation may not prove to be bioequivalent to the current formulation. This may result in the need to initiate additional clinical trials to define new dosing regimes. Furthermore, the development and implementation of a new formulation and commercial process for cGMP manufacturing may add significant delays to additional clinical trials, regulatory filings and commercial launch.

GOVERNMENT REGULATION AND PRODUCT APPROVAL

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture and marketing of pharmaceutical products. These agencies and other federal, state and local entities regulate, among other things, the testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, advertising and promotion of our products. Failure to comply with regulatory requirements may result in criminal prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other actions that could affect our product candidates or us. Any failure to comply with regulatory requirements, to obtain and maintain regulatory approvals, or

any delay in obtaining regulatory approvals could materially adversely affect our business.

The process required by the FDA before drugs may be marketed in the U.S. generally involves the following:

preclinical laboratory and animal studies;

submission of an investigational new drug application, or IND, which must become effective before human clinical trials may begin;

adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug for its intended use; and

FDA approval of a new drug application, or NDA.

The testing and approval process requires substantial time, effort and financial resources, and we cannot be certain that any