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

FORM 10-K

[ ] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year ended

OR

[X] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from August 1, 1999 to December 31, 1999

Commission file number 0-20772
QUESTCOR PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

CALIFORNIA	33-0476164
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
26118 RESEARCH ROAD HAYWARD, CALIFORNIA	94545
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (510) 732-5551

CYPROS PHARMACEUTICAL CORPORATION
(FORMER NAME)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, NO PAR VALUE
(Title of class)

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

[X] YES [ ] NO

As of March 23, 2000, the Registrant had 24,551,256 shares of Common Stock, no par value, outstanding, and the aggregate market value of the shares held by non-affiliates on that date was $84,407,218 based upon the last sales price of the Registrant's Common Stock reported on the American Stock Exchange.*

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

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* Excludes 173,717 shares of Common Stock held by directors, executive officers and shareholders whose beneficial ownership exceeds ten percent of the shares outstanding on March 23, 2000. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant, or that such person is controlled by or under common control with the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrants Definitive Proxy Statement filed with the Commission pursuant to Regulation 14A in connection with the 2000 Annual Meeting are incorporated by reference into Part III of this Report.

PART I.

ITEM 1. BUSINESS OF QUESTCOR.

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the description of the Company's business below and the sections entitled "Licenses", "Manufacturing", "Sales and Marketing", "Competition", "Government Regulation", "Patents and Proprietary Rights" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", those discussed in the S-3 Registration Statement File No. 333-25661 filed with U.S. Securities and Exchange Commission, as well as those discussed in any documents incorporated by reference herein or therein.

OVERVIEW

Questcor Pharmaceuticals, Inc., formerly Cypros Pharmaceutical Corporation, (the "Company" or "Questcor") is an integrated specialty pharmaceutical company focused on the development, acquisition and marketing of innovative, acute care and critical care hospital pharmaceutical products.

On November 17, 1999, the Company completed its merger with RiboGene Inc. ("RiboGene") and subsequently changed its name to Questcor Pharmaceuticals, Inc. Under the terms of the merger agreement, each share of RiboGene common stock was exchanged for 1.509 shares of the Company's common stock and each outstanding share of RiboGene Series A preferred stock was converted into 1.509 shares of Series A preferred stock of the Company. As a result, the Company issued 8,735,000 million shares of common stock and 2,156,000 million shares of preferred stock valued at $23,643,000 million to the former RiboGene shareholders. Stock options and transaction costs increased the total merger consideration to $30,019,000. The objective of the merger was to increase efficiency and synergy, by combining the Company's clinical development portfolio and growing sales and marketing presence with RiboGene's clinical development programs and its business development expertise.

The Company sells three products, Glofil-125 and Inulin, both injectable drugs that assess kidney function by measuring glomerular filtration rate, and Ethamolin(R), an injectable drug that treats bleeding esophageal varices. Additionally, the Company earns royalties from sales, in Italy, of Pramidin(R), an intranasal metoclopramide for the treatment of various gastrointestinal disorders, by its strategic partner, Crinos Industria Farmacobiologica SpA, . The Company is manufacturing its proprietary topical triple antibiotic wound care product for its over-the-counter marketing partner, NutraMax Products, Inc., utilizing Questcor's patented Dermaflo(TM) drug delivery technology. Under an agreement entered into in November 1998, NutraMax is converting the product into finished adhesive strips and patches for distribution to the mass merchandise market.

The Company's current development programs focus on two areas: Emitasol(R) phase II/III clinical trials and the development of cytoprotective drugs that target ischemic disorders.

Emitasol(R), intranasal metoclopramide, is currently being developed for two indications: diabetic gastroparesis and delayed onset emesis associated with chemotherapy patients. The diabetic gastroparesis drug candidate is being developed in collaboration with a subsidiary of Shire Pharmaceuticals Group plc ("Shire"), Roberts Pharmaceuticals Corporation ("Roberts") in the United States and is in phase II/III clinical trials. A phase III clinical trial for a delayed onset emesis indication is in the planning stage. The Company is conducting a multi-center, randomized, placebo-controlled Phase III clinical trial on Cordox(TM) in sickle cell anemia crisis patients. The Company may also conduct clinical trials of Cordox(TM) in other ischemic disorders, such as coronary artery bypass grafting surgery and may expand its clinical trials of Ceresine(TM), another cytoprotective agent, in closed head injury patients. The Company also has two intranasal drug candidates on which pilot trials have been conducted: Migrastat(TM) for migraine headache and Hypnostat(TM) for insomnia.

STRATEGY

The Company's objective is to develop and market acute care and critical care specialty hospital pharmaceutical products. The Company's strategy includes the acquisition and development of late stage drug candidates, the acquisition of marketed products that complement existing products and, where appropriate, the formation of corporate alliances to facilitate and fund the clinical development of the Company's drug candidates.

The Company's operating objectives include building a sustainable cash flow by reducing the overall cash consumption "burn" rate of the merged company; building a strong hospital oriented sales, marketing and distribution capability to increase and support sales of hospital products currently being marketed and of new complementary products to be acquired in the future; developing a strong regulatory and clinical development group to carry out fast and cost effective regulatory approval of the Company's drug candidates.

Acquisition of approved pharmaceutical products for detailing by sales force.

Questcor is building a sales, marketing and distribution capability to support and increase the sales of hospital products currently marketed by the Company. The Company is also looking to acquire additional hospital based products, currently on the market, that are available to be licensed or purchased, and where product sales are expected to respond positively to the Company's sales and marketing promotions through increased revenues and contributions to gross margin. Products to be considered for acquisition would have to be complementary to the Company's existing products and synergistic with detailing efforts undertaken by the Company's sales force. Questcor intends to hire additional sales professionals to promote its products in the hospital market.

Acquisition and development of late stage drug candidates.

An important element of Questcor's strategy is the ability to in-license late stage drug candidates to complement Questcor's existing products in the acute and critical care hospital market. Questcor is increasing its staff in clinical development and regulatory affairs to

effectively manage United States Food and Drug Administration, or FDA, regulatory submissions for both internally generated and in-licensed products.

Strategic alliances and corporate partnering.

An important part of the Company strategy includes the development of strategic alliances for out-licensing of marketed products and corporate partnering of drug candidates in various stages of clinical development. The Company has agreements to develop and market its products with Dainippon, Shire, Crinos Industria Farmacobiologica SpA, CSC Pharmaceuticals Handels GmbH, and Laboratories Silesia SA and through agreements with other firms it has acquired Inulin, Glofil-125, Ethamolin(R), Emitasol(R), Migrastat(TM), Hypnostat(TM), Sildaflo(TM) and Neoflo(TM).

The Company will continue its objective to out-license to appropriate partners in certain geographic areas the marketing and distribution rights to Emitasol(R) for the treatment of gastrointestinal disorders and delayed onset emesis in return for upfront licensing fees and royalties on revenues. Including the agreement with Shire Pharmaceuticals, the Company has currently four licensing agreements for Emitasol(R) and expects to add more in the future throughout the world.

The Company has several drug candidates in Phase II/III clinical development where corporate partnering of the clinical development and regulatory submissions might be the best opportunity for an early approval by the FDA. An example of this is Cordox(TM), which is being studied for the treatment of coronary artery bypass grafting, is currently in Phase III clinical development for sickle cell anemia crisis. Ceresine(TM) is being studied for closed head injury. See "Cytoprotective drugs to treat ischemic disorders".

Successful clinical trials for such potentially important treatments as coronary artery bypass grafting and closed head injury will require the enrollment of many patients. These trials are expensive and their cost will exceed the current financial resources of Questcor.

ACQUIRED PHARMACEUTICAL PRODUCTS

The Company's products include: Glofil-125 and Inulin, which were acquired in August 1995; Ethamolin(R), which was acquired in November 1996; and DermaFlo(TM), a technology which was acquired in November 1997.

Glofil-125 And Inulin. Kidney disease afflicts more than two million persons in the United States and is increasing primarily due to the increase in diabetes mellitus and systemic lupus erythromatosus cases. Kidney disease results in over $12 billion annually in healthcare costs in the United States. The measurement of kidney function, glomerular filtration rate, or GFR, is critical to the understanding of the disease state and its appropriate therapeutic intervention. GFR has historically been estimated by the measurement of endogenous serum creatinine and by creatinine clearance. These diagnostic assays overestimate kidney function by as much as 100% in some patients. The Company believes that the injection of a renal filtration marker, such as Inulin and Glofil-125, is a more accurate and direct means of determining GFR.

Glofil-125 and Inulin are FDA-approved products for the measurement of GFR. Nephrologists and nuclear medicine departments at major medical centers are the primary users of these products. During the fiscal year ended July 31, 1999, the Company recorded net sales from these two products of approximately $829,000 and one customer accounted for approximately 30% of Glofil-125 and Inulin sales and 9% of the Company's total sales. For the five months ended December 31, 1999, net sales for these two products totaled $270,000. One customer accounted for 39% of Glofil-125 sales, which represented approximately 17% of the Company's total sales. Glofil-125 is an injectable radioactive diagnostic drug, which provides rapid information on GFRs with great accuracy. It is currently sold by the Company in 4 ml vials and in prefilled syringes through the 117 nationwide radiopharmacies of Syncor International under a distribution agreement entered into with the Company in February 1996. Inulin is an injectable diagnostic drug, which provides a measure of GFRs. Inulin is currently sold in 50 ml ampules with actual patient dosing correlated to patient weight.

The Company believes that there is opportunity for increased utilization of Glofil-125. Present diagnostic procedures for measuring kidney function include serum creatinine and creatinine clearance tests. These two tests are the most commonly performed methods of measuring kidney function because of their low cost, however both methods significantly overestimate kidney function in the estimated 500,000 patients with severe renal disease. The use of Glofil-125 has been established in published clinical studies as being a more direct, accurate measure of kidney function yielding much more reliable results than serum creatinine or creatinine clearance tests. This improved accuracy can be essential in monitoring disease progression and intervention, as well as assessing renal impairment in its early and most treatable stage, however, most patients do not require this degree of accuracy in the estimation of renal function.

The biggest impediments to the growth in the sales of Glofil-125 are the current size of the Company's sales and marketing organization, the potential loss of reimbursement for the test and the inability of the Company to include Glofil-125 in the protocols of other clinical studies of renal therapeutics.

Inulin, which is sold by the Company, and (99m)Tc-DTPA, which is not sold by the Company and must be prepared onsite by the end user, are alternative agents for GFR measurement. However, the preparation and use of these two drugs is difficult and they do not provide the practical advantages of Glofil-125. The Company is aware of no new diagnostic drugs being introduced or in development that would be a competitive threat to Glofil-125.

Ethamolin(R). Approximately 75,000 people in the United States have or are approaching end stage liver disease. Liver disease, known as hepatic cirrhosis, results in approximately 25,000 deaths annually and ranks ninth among the leading causes of death. Hepatic cirrhosis promotes the formation of esophageal varices through development of portal hypertension. When intravenous blood pressure rises, these varicosities may cause a life threatening form of upper gastrointestinal hemorrhage associated with a 35-50% mortality rate. At least 50,000 patients in the United States have either actively bleeding esophageal varices or are at imminent risk of bleeding.

Early and effective treatment of esophageal varices to achieve hemostasis is essential to the outcome of the bleeding patient. The most common pharmaceutical treatment protocol involves the injection of a sclerosing agent into the varix, achieving clot formation and obliteration of the varix. This form of hemostasis is called sclerotherapy and usually requires multiple treatment sessions. Ethamolin(R) is the only sclerotherapy agent cleared by the FDA for the treatment of bleeding esophageal varices and the Company believes that it is the market leader in this therapeutic category. During the fiscal year ended July 31, 1999, the Company recorded net sales from this product of approximately $1,522,000. Two wholesalers accounted for approximately 72% of these sales and approximately 44% of total sales. For the five months ended December 31, 1999, Ethamolin(R) net sales totaled $319,000. Two wholesalers accounted for approximately 76% of these sales and approximately 38% of total sales for the Company. There is strong competition from another drug, Sotradecol(R), which is being prescribed off-label, and from band ligation, a form of surgery.

The Dermaflo(TM) Technology And The Neoflo(TM) And Sildaflo(TM) Products. In November 1997, the Company acquired the Dermaflo(TM) technology, a patented topical drug delivery system, from Enquay, Inc. for a combination of cash and royalties on net sales. The technology is a polymer matrix system that can store a variety of different drugs and release them at a desired rate over an extended period of time so that optimal clinical response is obtained. Included in the assets acquired were two FDA-approved products, Neoflo(TM) and Sildaflo(TM), and required manufacturing equipment.

The Company has a multi-year marketing and joint venture agreement with NutraMax Products, Inc., a leading supplier of first aid and wound care products under which the Company is supplying its proprietary triple antibiotic product using the Dermaflo(TM) technology to NutraMax for conversion and sale in the form of adhesive strips and patches. NutraMax has the exclusive right to sell the finished products to the retail and industrial first aid markets. Further, the agreement calls for the Company and NutraMax to jointly develop several new products using the Dermaflo(TM) technology and to share the development expense and profits from future sales. The Company began shipping the product to NutraMax in March 1999. Net sales to NutraMax totaled $167,000 for the year ended July 31, 1999, and $35,000 for the five months ended December 31, 1999, representing 7% and 6% of total sales, respectively.

Neoflo(TM) and Sildaflo(TM), the first two hospital products that the Company expects to launch using the Dermaflo(TM) technology, address consumer needs in both the over-the-counter and acute burn and wound care markets. Neoflo(TM) is a dressing that incorporates the triple antibiotic, polymyxin B sulfate, bacitracin zinc and neomycin sulfate (Neosporin(R)). The Company intends to manufacture Neoflo(TM) in various sizes, including small sizes to address the over-the-counter market through NutraMax, a distributor, and larger sizes for the hospital market. Sildaflo(TM) is a dressing that incorporates silver sulfadiazine, the most widely-used topical antimicrobial for the treatment of burns. The Company intends to manufacture Sildaflo(TM) in various large sizes to address the hospital/burn clinic market. Initially, the Company intends to market these products with its own sales force. The production and product launch of Sildaflo(TM) and Neoflo(TM) is dependent on the validation of the Company's manufacturing facility. See Risks "Our Success Depends on Timely Completion of Dermaflo(TM) Manufacturing Facility and Commercialization of Dermaflo."

The Company believes the extended-release nature of the technology could result in decreased treatment-related costs, increased patient compliance and reduced pain and discomfort,

resulting in a marketing advantage for the products sold using the Dermaflo(TM) technology. While it is difficult to determine the market potential of Neoflo(TM) and Sildaflo(TM), it is known that silver sulfadiazine and the triple antibiotic in their currently marketed non-extended release forms, have combined sales of approximately $60 million in the United States.

The Company is currently manufacturing the NutraMax product in temporary space in a facility in Lee's Summit, Missouri. The Company is in the process of completing improvements to permanent space in the same facility, including installation of larger scale equipment in that facility, and is planning to validate the large-scale equipment, cleaning methods and analytical methods. The Company expects to file an additional supplement to its New Drug Application, commonly referred to as an NDA, for Sildaflo(TM) covering the establishment of the permanent space, which will require a state license and an FDA inspection of the facility. When the permanent facility is approved by the FDA, and other changes to the Sildaflo(TM) lab are finalized, the Company intends to manufacture Neoflo(TM), Sildaflo(TM) and all future products incorporating the Dermaflo(TM) technology. The Company has been approached by an outside party about whether it would consider selling the rights to the Dermaflo(TM) technology including the rights to Neoflo(TM) and Sildaflo(TM) and including the manufacturing operations in Lee's Summit for consideration to be determined. The Company will be evaluating the attractiveness and economic results to the Company should such a proposal be made.

DRUG DEVELOPMENT

The Company's development programs include, Emitasol(R) phase II/III trials and the development of cytoprotective drugs that target ischemic disorders.

Emitasol(R)

The Company, through its merger with RiboGene, Inc., acquired Emitasol(R), an intranasal form of metoclopramide. Metoclopramide is an approved antiemetic and is available in both oral and intravenous forms. The Company and its partners are developing Emitasol(R)for the treatment of diabetic gastroparesis (stomach paralysis) and for delayed onset emesis (nausea and vomiting) associated with cancer chemotherapy. Emitasol(R) is currently being developed in North America as well as in certain countries in Europe through corporate partners. It is on the market in Italy as Pramidin(R), licensed to and distributed by Crinos Industria Farmacobiologica SpA for the treatment of gastrointestinal disorders. Emitasol(R) is intended to control diabetic gastroparesis and to prevent delayed emesis associated with cancer chemotherapy. Currently, there are no drugs specifically approved to treat delayed emesis. Oral metoclopramide is approved to treat diabetic gastroparesis and to prevent acute chemotherapy-induced emesis. The Company believes that Emitasol(R), when given intranasally, may be effective in treating diabetic gastroparesis and in preventing delayed onset emesis. Advantages may include ease of administration, an increased level of efficacy as compared to alternatives and cost effectiveness. The Company, together with its collaborative partner Shire, began Phase II/III clinical trials of Emitasol(R) for diabetic gastroparesis in late 1999. See "Strategic Alliances and Corporate Collaborators." However, substantial additional development, clinical testing and investment will be required prior to seeking any regulatory approval for commercialization of this product.

There can be no assurance that clinical trials of Emitasol(R) will demonstrate the safety and efficacy of such product to the extent necessary to obtain regulatory approvals for the indications being studied, or at all. The failure to demonstrate adequately the safety and efficacy of Emitasol(R) could delay or prevent regulatory approval of the product.

Diabetic gastroparesis. For some diabetics, proper digestion may be difficult. Variable blood glucose levels may lead to a condition known as gastroparesis or stomach paralysis. Gastroparesis can result in general loss of appetite, nausea and vomiting, and in some cases severe dehydration. Many prescription medications are used to treat gastroparesis, including bethanecal, cisapride and erythromycin. Each of these drugs has limited effectiveness and side effects. Metoclopramide tablets are approved for treating gastroparesis. The Company believes that the intranasal form of metaclopramide may provide diabetics with gastroparesis an easier route of administration and better patient compliance. The Company commenced phase II/III clinical trials for the control of diabetic gastroparesis in late 1999. Positive results in these trials may allow for the submission of a NDA to the FDA, which the Company, based on the current clinical development plan, expects to occur in 2001.

Delayed onset emesis. Nausea and vomiting (emesis) are common side effects of cancer chemotherapy. Chemotherapy-induced emesis is considered to occur in two phases: acute (within 24 hours of the initiation of chemotherapy) and delayed (on the second and subsequent days). Several drugs have been approved by the FDA for preventing nausea and vomiting associated with emetogenic chemotherapy, including injectable forms of ondansetron, granisetron and metoclopramide. Ondansetron and granisetron are representatives of a newer class of drugs called serotonin antagonists or setrons, and are considered highly effective in controlling acute chemotherapy-induced emesis. There are conflicting reports, however, about the efficacy of serotonin antagonists in controlling delayed onset emesis. There are in fact no FDA-approved treatments specifically for delayed onset emesis. Increasing numbers of these patients are being treated as outpatients and experience delayed onset emesis when they are no longer under the immediate care of a medical professional. Any medication for such emesis should therefore be suitable for self-administration by the patient. Injectable medications are unlikely to be suitable in this context. It appears that current practice is to provide patients initially with oral antiemetics in tablet form. Tablets are not, however, particularly suitable for patients who are nauseated and may vomit.

Prior clinical trials for Emitasol(R) have demonstrated that metoclopramide is absorbed and effective when given intranasally. Phase I trials indicated that the overall amount of metoclopramide which reaches the plasma is very similar whether the drug is given intranasally, intravenously or orally. Given the similarity in uptake of the three dosage forms, similarity might also be expected in their clinical performance. For acute emesis the expected similarity in performance has been demonstrated for the intranasal and intravenous dosage forms: in a prior phase III study, Emitasol(R) provided protection against acute emesis comparable to that previously reported for intravenous metoclopramide. The Company therefore anticipates that intranasal metoclopramide may be effective for controlling delayed onset emesis, an activity suggested for oral metoclopramide in the clinical literature.

According to the American Cancer Society, about 1.3 million new patients are diagnosed with cancer in the United States each year, many of whom are treated with chemotherapy.

Chemotherapy is typically administered as a series of separate courses over a period of several months. On average, patients have six separate courses of chemotherapy per year. In total, therefore, the number of courses of chemotherapy administered to cancer patients each year in the United States is estimated to be several million. Additionally, according to the Center for Diseases Control, there are 16 million diabetics in the United States, of which 40 to 50 percent may show signs of gastroparesis.

Although the Company's partner, Shire, is currently conducting a Phase II/III clinical trial of Emitasol(R) for the treatment of diabetic gastroparesis, substantial additional development, clinical testing and investment will be required prior to seeking any regulatory approval for commercialization of this product in the United States. There can be no assurance that clinical trials of Emitasol(R) will demonstrate the safety and efficacy of such product to the extent necessary to obtain regulatory approvals for the indications being studied, or at all. The failure to demonstrate adequately the safety and efficacy of Emitasol(R) could delay or prevent regulatory approval of the product.

CYTOPROTECTIVE DRUGS TO TREAT ISCHEMIC DISORDERS

Cytoprotective drugs for acute care settings that treat ischemic injury are not currently available and the market opportunities for the Company may be significant, potentially totaling several million cases annually in the United States. The Company believes that its drugs, if approved, may reduce the number of fatalities associated with ischemia-related disorders and also reduce the high cost of rehabilitation and ongoing care in the United States of these victims.

The Company's drugs are administered intravenously which allows for fast delivery to the ischemic tissue. In order to ensure early interventions, they are intended to be standard components in hospital emergency rooms, operating theater suites, endoscopy suites and radiology suites. Chemically demonstrated lack of acute toxicity should suit them for this purpose, but such a demonstration is dependent on ongoing and future clinical trials which may not be successful.

Circulatory System Ischemia. Cardiovascular ischemia can result in a spectrum of clinically significant events ranging from angina (pain) to heart attack and sudden death. In addition to the numerous trauma or disease related causes of ischemia, there are a variety of planned surgical procedures which result in ischemia to vital organ systems. Procedures such as coronary artery bypass grafting surgery, which are performed to improve blood flow to the heart, induce temporary ischemia which can result in tissue damage. Thus, Cordox, if approved, may be a part of the treatment regimen for these disorders. Some of these conditions or procedures represent potential opportunities for use of the Company's drugs to reduce the tissue damage known to be associated with them.

Cerebrovascular ischemia (stroke) can result in temporary loss of consciousness, permanent behavioral and neurologic impairment, coma and death. Traumatic injury to the head is caused by accidents, near drownings and similar incidents. The resultant medical problems are, in large part, caused by ischemia to the brain. The biochemical processes associated with stroke and head trauma are thought to be very similar; thus, the Company believes drugs developed for one indication may be useful for other related indications.

THE PATHOLOGY OF ISCHEMIA

Metabolic Aspects (All Tissues). All living animal cells require glucose and oxygen to survive, both of which are supplied to tissues by the blood. Glucose is transformed into carbon dioxide and water with the resultant formation of ATP. ATP is the universal fuel which is required to keep the cell alive. During and after ischemia, the decrease in cellular ATP levels damages the cell and, the Company believes, results in the toxic ischemic cascade, a myriad of cell-damaging processes discussed below which cause further cell damage.

ATP generation occurs in two phases. The first phase, called glycolysis or anaerobic metabolism, does not require oxygen. The second phase, called aerobic metabolism or the Krebs cycle, requires oxygen and occurs in mitochondria. Glycolysis is a means of producing cellular energy in ischemic conditions, and therefore, represents the body's natural defense against ischemic damage. For this reason, the facilitation of glycolysis is of interest therapeutically in the prevention of ischemic damage to tissues and organs. When pyruvic acid builds up during ischemia due to the inability of aerobic metabolism to utilize it, an enzyme converts it to lactic acid which blocks glycolysis. The therapeutic principle underlying Cordox(TM) and Ceresine(TM) is to facilitate glycolysis during and after ischemia so the cell continues to produce ATP and the toxic ischemic cascade is pre-empted or reversed. Specifically, Cordox(TM) bypasses the lactic acid block and does not need to be energized by ATP to be metabolized. Ceresine(TM) reduces ischemia induced lactic acid accumulation by removing the cause of the metabolic block, and therefore, allows energy metabolism to continue.

Excitotoxicity (Nerve Tissue). The destructive impact of ATP depletion in nerve tissue is further complicated by the over-production in nerve cells of various excitatory amino acids, chemicals that transmit nerve impulses from one nerve cell to another. The over-production and release of excitatory amino acids, predominately glutamate and aspartate, by nerve cells exposed to ischemia over-stimulates adjacent postsynaptic nerve cells, causing them in time to succumb to metabolic exhaustion and cell death. This ischemia-induced process, called delayed excitotoxicity, is associated with a number of acute neurologic disorders, which include stroke and traumatic head injury, and chronic disorders, which include Alzheimer's, Parkinson's Disease and Amyotrophic Lateral Sclerosis. Controlling delayed excitotoxicity by blocking the postsynaptic excitatory amino acid receptors has recently attracted the attention of both academic and pharmaceutical scientists. To date, the drugs in development that act by this mechanism have considerable side effects and only block selected receptor subtypes, therefore only dealing with part of the problem since all receptor subtypes appear to cause damage.

The Toxic Ischemic Cascade. Ischemia-induced cell damage triggers a number of processes which cause further damage to each affected cell and its surrounding cells. This myriad of destructive processes is facilitated by reperfusion injury, which occurs after blood flow is re-established. The traumatized, ATP-depleted cell enters into the toxic ischemic cascade, resulting in the release of a host of toxic agents, including damaging reactive chemicals called free radicals, as well as other molecules that are products of cell membrane breakdown, all of which damage cells. Excessive intracellular calcium buildup is also an element of the toxic ischemic cascade and also triggers a host of other damaging processes, such as activation of proteolytic enzymes which break

down proteins and digest cells and activation of protein kinases which regulate cell metabolism. The traumatized cell also releases agents which stimulate the immune system, activating various blood cells, such as neutrophils and macrophages which actually eliminate the cell affected by ischemia. Rather than target each of these myriad events, the Company's drugs, Cordox(TM) and Ceresine(TM), address ATP replenishment so that the cell can correct the ischemic cascade naturally.

There are currently no known FDA-approved cytoprotective drugs. Those under development are, to the Company' knowledge, primarily aimed at specific elements of the toxic ischemic cascade. The Company believes that its approach to cytoprotective drug development is unique in that it seeks to pre-empt or reverse the entire cascade by decreasing the initial metabolic trauma which triggers ATP depletion. The Company believes that this approach is preferable to treating specific elements of the cascade, since it more comprehensively addresses the underlying pathology and should therefore result in more efficacious therapy.

CARDIOVASCULAR AND CEREBROVASCULAR ISCHEMIA DRUGS IN DEVELOPMENT-THE METABOLISM PROGRAM

The Company has started a Phase III clinical trial on Cordox(TM) in sickle cell crisis patients and has received orphan drug designation for Cordox(TM) in this indication. The Company also has gathered data from its heart surgery trial of Cordox(TM) and its traumatic head injury trial of Ceresine(TM) and may consider additional trials in both of these indications in the future.

Cordox And Ceresine

There are several million cases of ischemia-induced disorders annually in the United States, resulting in over 700,000 deaths and several billion dollars in annual costs for physical and mental rehabilitation and ongoing care. There are currently no FDA-approved drugs, known as cytoprotective drugs, to avoid or reverse the massive cell damage caused by ischemia. Ischemic disorders include heart attack, stroke, surgery, trauma and various anemias. Currently approved drugs for treating cardiovascular ischemia, such as clot busting drugs, serve to re-establish blood flow but do not have direct cytoprotective effects on the ischemic tissue. The Company believes that the drugs it is developing, Cordox(TM) and Ceresine(TM), if successfully tested and approved by the FDA and successfully marketed, may reduce the number of fatalities and the rehabilitation and ongoing care costs associated with ischemic disorders.

Impairment of blood flow reduces the supply of oxygen to body cells, interrupting normal aerobic metabolism and causing depletion of adenosine triphosphate, or ATP, the cells' primary energy source. Ischemia-induced depletion of ATP produces a myriad of increasingly destructive cellular events known as the toxic ischemic cascade. The Company believes that the cytoprotective drugs under development by others for treatment of ischemia are focused on treating specific elements of the toxic ischemic cascade, leaving other elements free to cause cell, tissue and organ damage.

The Company's approach, based on preventing or reversing the toxic ischemic cascade, is comprehensive in nature and, the Company believes, potentially more effective. Cordox(TM) and Ceresine(TM) are designed to act during and after ischemia by maintaining cellular ATP levels or

accelerating their restoration. Cordox(TM), a natural substance, and Ceresine(TM) are more amenable to being used early in the patient management process, which is critical in acute care settings.

Cordox(TM).

Cordox(TM) is a small phosphoryllated sugar that the Company believes, based on extensive pre-clinical and mechanistic data, stimulates and maintains glycolysis in cells undergoing ischemia by circumventing the ischemia-induced blockage of this process. The drug also appears to inhibit various aspects of immune system activation which underlie reperfusion injury. The Company has licensed or obtained several issued U.S. patents which cover the use of Cordox(TM) in several acute ischemic indications and a U.S. patent on a novel formulation of Cordox(TM).

During the year ended December 31, 1999, the Company commenced a Phase III trial of Cordox(TM) in sickle cell anemia crisis patients. In addition, the Company also received a U.S. patent covering the use of Cordox(TM) in sickle cell anemia crisis patients to reduce the painful occlusive ischemic episodes.

Sickle cell anemia is an autosomal recessive genetic disease carried by about 8% of African-Americans and a lesser number of people native to the Mediterranean region. Approximately 72,000 African-Americans suffer from the most severe form of the disease, known as homozygous, where the red blood cells form sickle shapes that can occlude capillaries and result in severe and disseminated ischemia, termed vaso-occlusive events, or VOEs. Sickle cell patients may undergo multiple VOEs each year. Cordox(TM) has been shown pre-clinically to help reduce this sickling process and to reduce pain in sickle cell disease patients. The Company is evaluating Cordox(TM) in a Phase III trial of sickle cell anemia crisis patients. The FDA has granted orphan drug designation to Cordox(TM) in this indication.

Ceresine(TM).

Ceresine(TM) is also a small non-peptide molecule which acts on glycolysis at a different site from Cordox(TM). The Company has licensed or obtained two issued U.S. patents covering the use of Ceresine(TM) in cerebral ischemia and recently received orphan drug designation for Ceresine(TM) in this indication. The Company believes that Ceresine(TM) stimulates a specific enzyme which is present in the membrane of the mitochondria that removes a precursor of lactic acid, known as pyruvic acid, from the cytoplasm of the cell by transporting it into the mitochondria and converting it to acetyl coA. This results in a reduction of lactic acid in the cell. Increased post-ischemia accumulation of lactic acid is a major causal factor in the cessation of glycolysis, the resultant decrease in cellular ATP levels and eventual cell death. Numerous studies have shown that Ceresine(TM) reduces post-ischemia lactic acid levels in humans subjected to various traumatic events, which would otherwise have resulted in increased lactic acid or lactic acidosis.

Ceresine(TM) has been employed by clinical investigators in patients on an experimental basis for the intravenous treatment of lactic acidosis. Published clinical studies and the Company' own Phase I data have established that Ceresine(TM) reduces serum lactic acid and exhibited no

serious side effects at the dose levels in that study. It has also been shown in human studies to permeate the blood-brain barrier and to reduce brain lactic acid levels in congenital lactic acidosis patients.

The Company's Phase II clinical trial data on Ceresine(TM) in closed head injury patients showed that the drug crosses the blood-brain barrier at high levels and very quickly after crossing reduces brain lactate levels substantially. This effect lasted for at least 12 hours. Serum lactate levels were also reduced substantially in the drug-treated group. In July 1998, the FDA granted expedited development status to Ceresine(TM) in head injury under Subpart E of the FDA regulations. In addition, the Company has completed enrollment in a Phase II clinical trial on Ceresine(TM) in stroke patients. Approximately 100 patients participated in the Phase I and two Phase II trials of Ceresine(TM) under the Company's IND and the drug was well tolerated

DRUG DISCOVERY

Subsequent to the merger with RiboGene, the Company implemented a strategy to focus on approved pharmaceutical products and late stage drug development candidates; as a result, the Company intends to out-license its early stage drug targets and technology. Thus the Company discontinued its drug discovery programs in the first quarter of 2000 and anticipates that future in-house drug discovery research expenses associated with drug discovery will be limited to legal, patents and other costs to license such programs.

In January 2000, the Company announced that it has agreed to out-license exclusive rights to certain aspects of the Company's proprietary drug research technology to Dainippon Pharmaceutical Co., Ltd. Osaka, Japan. In exchange for a $2 million cash payment and potential future milestone and royalty payments, the Company has granted an exclusive, worldwide license to Dainippon to use the Company's ppGpp Degradase and Peptide Deformylase technology for the research, development and commercialization of pharmaceutical products. The Company has retained the right to co-promote, in Europe and the United States, certain products resulting from the arrangement. The Company will be entitled to receive milestone payments upon the achievement of clinical and regulatory milestones in the amount of $5,000,000 in Japan and $5,000,000 in one other major market. Additionally, the Company will receive a royalty on net sales that will range from 5% to 10%, depending on sales volume and territory. Both companies have agreed to terminate the antibacterial research collaboration (the Dainippon Agreement) that was established in 1998 between the two companies.

There can be no assurance that Company will be successful in licensing its other drug discovery programs or that it will realize fees or revenues from such programs.

STRATEGIC ALLIANCES AND CORPORATE COLLABORATORS

The Shire Pharmaceuticasl Group plc Agreement

The Company has an option and license agreement with Shire, for the development of Emitasol(R), an intranasally administered drug being developed for treatment of diabetic gastroparesis and delayed onset emesis in cancer chemotherapy patients. In connection with this agreement, Roberts made a $10.0 million equity investment in RiboGene by purchasing 1,429,000 million shares of Series A non-voting convertible preferred stock at $7.00 per share.

Upon the merger with the Company the RiboGene Series A preferred stock was converted into 2,136,000 million shares of the Company's Series A preferred stock. Under the terms of the option and license agreement, Roberts will conduct clinical trials using Emitasol(R) and, if those are successful, submit an NDA for Emitasol(R). If FDA regulatory approval is obtained, Roberts will have 60 days to exercise an exclusive option for a license to market Emitasol(R) in North America. Roberts has agreed to make a payment to the Company of up to $10.0 million upon the exercise of the option and to pay a royalty on product sales. The Company will provide up to $7.0 million in funding for the development of Emitasol(R) through completion of Phase III trials and the submission of an NDA, with the balance, if any, provided by Roberts.

The Dainippon Agreements

In 1998, RiboGene entered into a research agreement with Dainippon in connection with the RiboGene's two principal antibacterial targets, deformylase and ppGpp degradase. Pursuant to the research agreement, Dainippon and the Company. agreed to collaborate in a research program directed at accelerating the discovery of antibacterial drugs that have activity against either of these two bacterial specific targets. Dainippon agreed to provide certain antibacterial research and development support internally at Dainippon and research reimbursements over a three-year period, subject to extension upon mutual agreement by both parties.

Also in 1998, RiboGene entered into a license agreement with Dainippon. Pursuant to the license agreement, RiboGene granted Dainippon exclusive, worldwide rights to develop and market any and all antibacterial products discovered by the parties during the joint research collaboration to have activity against deformylase or ppGpp degradase. Under the terms of the license agreement, Dainippon has responsibility for all development activities necessary to commercialize potential lead compounds resulting from the Dainippon Collaboration, including preclinical testing, clinical development, submission for regulatory approval, manufacturing and marketing.

In January 2000, the Company and Dainippon terminated the research agreement and agreed to license exclusive rights to certain aspects of the Company's proprietary drug research technology to Dainippon in exchange for $2.0 million and potential future milestone and royalty payments. See "Drug Discovery" above for a description of the agreement with Dainippon.

LICENSES

Crinos Industria Farmacobiologica SpA ("Crinos"). In January 1994, as part of its acquisition of Emitasol and certain other intranasal products from Hyline Laboratories, Inc., the Company entered into a license agreement with Crinos. The agreement grants Crinos an exclusive license to manufacture and market Emitasol(R) in Italy. The Company will receive a royalty on net sales of Emitasol(R), if any, in Italy. The agreement expires 10 years after the first commercial sale in Italy subject to automatic renewal for three-year periods. In October 1996, the agreement was amended to grant Crinos a non-exclusive world-wide license to manufacture Emitasol(R). The amendment provides that the Company will receive additional royalties on all supply arrangements between Crinos and any licensees of the Company to Emitasol(R). The Company may terminate the license agreement in the event Crinos fails to pay certain minimum

royalties. The Company also retains the right to all data generated by Crinos on Emitasol(R), including clinical and manufacturing information.

Crinos has received governmental approval to market Emitasol(R) in Italy and launched this product under the tradename Pramidin(R). in 1999 for the treatment of gastrointestinal disorders. Pramidin(R) will be marketed in two dosage forms under the names Pramidin(R) 10 (200 milligrams of active ingredient) and Pramidin(R) 20 (400 milligrams of active ingredient).

CSC Pharmaceuticals Handels GmbH ("CSC"). In April 1997, RiboGene entered into an agreement with CSC. The agreement grants CSC an exclusive license to market and sell Emitasol(R) in Austria, Poland, Bulgaria, the Czech Republic, Slovakia, Hungary, Rumania, the Community of Independent States and eight other eastern European countries. CSC has agreed to pay a royalty to the Company based on net sales within the countries listed above. The agreement will expire on a country-by-country basis 10 years after the first commercial sale in that country. The Company can terminate the license if CSC does not obtain approval in any country contained in the agreement by April 16, 1999. CSC has filed for regulatory approval in Austria and the Czech Republic.

Laboratorios Silesia SA - In December 1999, the Company signed a license agreement with Laboratorios Silesia SA for marketing of Emitasol(R) (metoclopramide nasal spray) in Chile. The Company received a small up-front payment and will receive royalties on the net sales of Emitasol(R) in the territory.

University of Washington. In April 1997, RiboGene entered into an agreement with the University of Washington, which was amended in October 1997, pursuant to which RiboGene received an exclusive worldwide license to certain patent rights and technology relating to the interaction of the hepatitis C virus NS5A protein and PKR. Under the agreement, RiboGene paid an upfront license fee and has agreed to pay a quarterly license maintenance fee and a milestone payment of $250,000 due upon the approval of an NDA for a compound developed using the licensed patent rights. See "Risk Factors -- Dependence on Patents and Proprietary Rights."

Angel K. Markov, M.D.-Cordox(TM). The Company has obtained an exclusive license from Dr. Markov to four U.S. patents covering the use of Cordox(TM) in a number of ischemic indications. As part of the license, the Company is funding clinical development in Dr. Markov's laboratories at the University of Mississippi Medical Center. In this regard, the Company has undertaken development obligations which must be met in order to maintain this license in force. In the event the Company breaches the license agreement, such as by not meeting specific milestones within the specified time periods or by failing to expend specific amounts in connection with clinical trials within specified time periods, the license will automatically terminate and all rights under the license and information acquired by the Company concerning any products based on the licensed technology will revert to Dr. Markov. In the event of termination, the Company will retain the rights to market products for which sales occurred within the calendar year prior to the termination, and all other products and information related to those products based on the licensed technology will revert to Dr. Markov. To date, the Company has met all milestones in the agreement.

University Of Cincinnati-Ceresine(TM). The Company has an exclusive license from the University of Cincinnati to a U.S. patent covering the use of Ceresine(TM) in cerebral ischemia. The Company has undertaken specific development obligations which must be met in order to maintain its rights in force. If specific milestones are not met by the Company within specified time periods, the University of Cincinnati may, in its sole discretion, elect to continue the agreement, negotiate in good faith with the Company to modify the agreement or terminate the agreement upon 30 days' written notice in which event all rights under the license would revert to the University of Cincinnati. To date, the Company has met all of these milestones.

MANUFACTURING

The Company does not currently manufacture any of its acquired products or its products in development, except for the NutraMax product. The commercial products, Glofil-125, Inulin and Ethamolin(R) and clinical trial supplies for Cordox(TM) and Ceresine(TM) are manufactured for the Company under contract by approved manufacturers. Alternate manufacturers have been qualified for Cordox(TM) and Ceresine(TM). In the case of Inulin, Cordox(TM) and Ceresine(TM), the Company is responsible for obtaining the bulk drug from a third party and delivering it to the finished goods manufacturer. In the case of Inulin and Ceresine(TM), the Company has qualified alternative sources of supply for the bulk drug. There can be no assurance that any of the Company's bulk or finished goods contract manufacturers will continue to meet the Company's requirements for quality, quantity and timeliness or the FDA's current good manufacturing practice requirements or that the Company would be able to find a substitute bulk manufacturer for Cordox(TM), or a substitute finished goods manufacturer for Inulin, Glofil-125 and Ethamolin(R) or any other of its products, nor that all cGMP requirements will be met, nor that lots will not have to be recalled with the attendant financial consequences to the Company.

In addition, the Dermaflo(TM) product line is the Company's first attempt at in-house manufacturing of any of its products and there can be no assurance that the Lee's Summit facility will be completed, or when completed that it will meet the FDA's current good manufacturing practice requirements and be approved by the FDA, or when approved will have the capacity to meet demand. The Company has recently begun manufacturing the NutraMax product in temporary space in the same complex housing its Lee's Summit facility. The Company also faces risks inherent in the operation of a single facility for the manufacture of Dermaflo(TM) products, including risks of unforeseen plant shutdowns due to personnel, equipment or other factors. Any delay in the manufacturing of the Dermaflo(TM) products could result in delays of product shipments, which could have a material adverse effect on the Company's business, financial condition and results of operations. Further, the Company is relying on third parties to supply it with the active ingredients for the Neoflo(TM) and Sildaflo(TM) products in bulk form, and there can be no assurance that these third parties will not cause delays in the manufacture or shipments of these Dermaflo(TM) products.

The Company's limited manufacturing experience and its dependence upon others for the manufacture of bulk or finished forms of its products may adversely affect the future profit margin on the sale of those products and the Company's ability to develop and deliver products on a timely and competitive basis. In the event the Company is unable to manufacture its

products, directly or indirectly through others, on commercially acceptable terms, it may not be able to commercialize its products as planned.

SALES AND MARKETING

The Company currently has a Director of Marketing, a National Sales Manager, a Customer Service Representative and seven field sales representatives for Glofil-125, Inulin and Ethamolin(R) and is recruiting a Vice President of Sales and Marketing and additional sales representatives. The Company believes that it will be able to serve the major hospitals in North America with a 16 person sales and marketing staff. There can be no assurance that the Company will be able to establish sales and distribution capabilities or be successful in gaining market acceptance for its drugs.

COMPETITION

The Company faces competition from specialized biotechnology companies, pharmaceutical companies of all sizes, academic institutions, government agencies and public and private research organizations, many of which have extensive resources and experience in research and development, clinical testing, manufacturing, regulatory affairs, distribution and marketing. Some of these entities have significant research activities in areas upon which the Company's programs focus. Many of the Company's competitors possess substantially greater research and development, financial, technical, marketing and human resources than the Company and may be in a better position to develop, manufacture and market drugs. These entities may discover and develop drugs competitive with or superior to those developed by the Company.

GOVERNMENT REGULATION

The manufacture and sale of the Company's products are subject to extensive regulation by United States and foreign governmental authorities prior to commercialization. In particular, drugs are subject to rigorous preclinical and clinical testing and other approval requirements by the FDA, state and local authorities and comparable foreign regulatory authorities. The process for obtaining the required regulatory approvals from the FDA and other regulatory authorities takes many years and is very expensive. There can be no assurance that any product developed by the Company will prove to meet all of the applicable standards to receive marketing approval in the United States or abroad. There can be no assurance that these approvals will be granted on a timely basis, if at all. Delays and costs in obtaining these approvals and the subsequent compliance with applicable federal, state and local statutes and regulations could materially adversely affect the Company's ability to commercialize its products and its ability to earn sales revenues.

The research activities required by the FDA before a drug can be approved for marketing begin with extensive preclinical animal and laboratory testing. The tests include laboratory evaluation of product chemistry and animal studies for the safety and efficacy of the drug. The results of these studies are submitted to the FDA as part of an IND which is reviewed by the FDA prior to beginning clinical trials, first in normal volunteers and then in patients with the

disease.

Clinical trials involve the administration of the investigational new drug to healthy volunteers or to patients, under the supervision of a qualified physician/principal investigator. Clinical trials are conducted in accordance with governmental statutes, regulations and guidelines and under protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND. Further, each clinical study must be evaluated by an independent Institutional Review Board, referred to as the IRB, at the institution at which the study will be conducted. The IRB considers, among other things, ethical factors, the safety of human subjects and the possible liability of the institution, and approves the informed consent to be obtained from all subjects and patients in the clinical trials. The Company will have to monitor the conduct of clinical investigators in performing clinical trials and their compliance with FDA requirements.

Clinical trials are typically conducted in three sequential phases (Phase I, Phase II and Phase III), but these phases may overlap. There can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specified time period, if at all, with respect to any of the Company's drugs. Furthermore, the Company or the FDA may suspend clinical trials at any time if it is felt that the subjects or patients are being exposed to an unacceptable health risk or that the investigational product lacks any demonstrable efficacy.

The results of the pharmaceutical development, preclinical studies and clinical studies are submitted to the FDA in the form of an NDA for approval of the marketing and commercial shipment of the drug. The testing and approval process is likely to require substantial time (frequently five to eight years or more) and expense and there can be no assurance that any approval will be granted on a timely basis, if at all. The FDA may deny an NDA if applicable regulatory criteria are not satisfied, require additional testing or information, or require post-marketing testing and surveillance to monitor the safety of the Company's drugs. Notwithstanding the submission of the NDA and any additional testing data or information, the FDA may ultimately decide that the application does not satisfy its regulatory criteria for approval. Finally, drug approvals may be withdrawn if compliance with labeling and current good manufacturing practices regulatory standards is not maintained or if unexpected safety or efficacy problems occur following initial marketing.

Among the conditions for clinical studies and NDA approval is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to cGMP, which must be followed at all times. In complying with standards set forth in these regulations, manufacturers must continue to expend time, monies and effort in the area of production and quality control to ensure full technical compliance.

Also, companies that engage in pharmaceutical development, such as the Company, are required to pay user fees of more than $250,000 upon submission of an NDA. No fee is required for the submission of an NDA for an orphan drug and waivers of the use fee are also available under other circumstances. In addition to regulations enforced by the FDA, The Company is subject to regulation under the Occupational Safety and Health Act, the Environmental

Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other present and potential future federal, state or local regulations. For marketing outside the United States, The Company is subject to foreign regulatory requirements governing human clinical trials and marketing approval for drugs. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country.

PATENTS AND PROPRIETARY RIGHTS

The Company's success may depend in large measure upon its ability to obtain patent protection for its products, maintain confidentiality and operate without infringing upon the proprietary rights of third parties. The Company has obtained patent coverage, either directly or through licenses from third parties, for some of its products The Company currently owns or has licensed a total of 13 issued and 5 allowed U.S and foreign patents covering Cordox(TM) and Ceresine(TM) in a variety of ischemic disorders. It also holds an exclusive license to 5 U.S. and foreign patents on the Dermaflo(TM) technology. Additionally, the Company has eight U.S. patents and three exclusive licenses associated with RiboGene's drug discovery and development programs.

The Company had acquired intellectual property associated with its intranasal program, they include: Emitasol(R), for diabetic gastroparesis and emesis associated with chemotherapy, Migrastat(TM), for migraine, and intranasal benzodiazepines for various conditions such as anxiety, seizures, panic attacks and sleep disorders. The Company has licensed rights to Emitasol(R) in North America, Italy, Chile, Austria and certain former Eastern European countries. The Italian licensee received approval to market Emitasol(R) in Italy. There can be no assurance that the foreign licensees will obtain the necessary regulatory approvals to market Emitasol(R), or that, in the event such approvals are obtained, that Emitasol(R) will achieve market acceptance in such countries, or that the Company will ever realize royalties on sales of Emitasol(R) in such countries.

In April 1997, the Company entered into an agreement with CSC Pharmaceuticals Ltd., ("CSC") of Vienna, Austria for the sale and distribution of Emitasol(R) in Austria, Eastern Europe and the Russian Federation. Under the terms of the agreement, CSC is obligated to file for regulatory approval in Austria on its behalf and three other European Union countries (as directed by and for the benefit of the Company) for the purpose of obtaining European Union approval to market the product via the Mutual Recognition process. CSC filed for approval in Austria in 1998 and in the Czech Republic in 1998. In the event the Company licenses a third party in a European Union country other than Austria, and the third party obtains marketing approval through substantial reliance on the marketing approval obtained by CSC, on behalf of the Company, in any of the three designated countries, the Company will pay CSC 10% of all up front consideration received from the third party, other than payment for equity, up to a maximum of 200% of CSC's expenses for obtaining such marketing approval. In a separate agreement, the Company's Italian Licensee, Crinos, has agreed to manufacture Emitasol(R) for CSC and any other licensees. There can be no assurance that CSC will obtain approval in Austria or that if approval is obtained, CSC will file for and obtain approval in the other EU countries.

In December 1999, the Company entered into an agreement with Laboratorios Silesia S.A. for marketing of Emitasol(R) (metoclopramide nasal spray) in Chile. The Company received a small up-front payment and will receive royalties on the net sales of Emitasol(R) in the territory. Located in Chile, Silesia specializes in the marketing of pharmaceutical products to the Chilean market. The company was founded over 50 years ago and represents, in Chile, several large multinational pharmaceutical companies.

In addition to the patents issued and allowed as mentioned above, the Company has also filed several other patent applications in the United States and abroad on its various products and expects to file additional applications in the future. There can be no assurance that any of these patent applications will be approved, except where claims have already been examined and allowed, or that the Company will develop additional proprietary products that are patentable. Nor can there be any assurance that any patents issued to the Company or its licensors will provide the Company with any competitive advantages or will not be challenged by third parties or that patents issued to others will not have an adverse effect on the ability of the Company to conduct its business. Furthermore, because patent applications in the United States are maintained in secrecy until issue, and because publication of discoveries in the scientific and patent literature often lag behind actual discoveries, the Company cannot be certain that it was the first chronologically to make the inventions covered by each of its pending U.S. patent applications, or that it was the first to file patent applications for such inventions. In the event that a third party has also filed a U.S. patent application for any of its inventions, the Company may have to participate in interference proceedings declared by the United States Patent and Trademark Office to determine priority of the invention, which could result in substantial cost to the Company, even if the eventual outcome is favorable to the Company. In addition, there can be no assurance that the Company' U.S. patents, including those of its licensors, would be held valid by a court of law of competent jurisdiction. If patents are issued to other companies that contain competitive or conflicting claims which ultimately may be determined to be valid, there can be no assurance that the Company would be able to obtain a license to any of these patents.

Under Title 35 of the United States Code, as amended by the General Agreement on Tariffs and Trade implementing the Uruguay Round Agreement Act of 1994, commonly referred to as GATT, patents that issue from patent applications filed prior to June 8, 1995 will enjoy a 17-year period of enforceability as measured from the date of patent issue while those that issue from applications filed on or after June 8, 1995 will enjoy a 20-year period of enforceability as measured from the date the patent application was filed or the first claimed priority date, whichever is earlier. Patents that issue from applications filed on or after June 8, 1995 may be extended under the term extension provisions of GATT for a period up to five years to compensate for any period of enforceability lost due to interference proceedings, government secrecy orders or appeals to the Board of Patent Appeals or the Federal Circuit.

Under the Drug Price Competition and Patent Term Restoration Act of 1984, including amendments implemented under GATT, the period of enforceability of a first or basic product patent or use patent covering a drug may be extended for up to five years to compensate the patent holder for the time required for FDA regulatory review of the product. This law also establishes a period of time following FDA approval of certain drug applications during which the FDA may not accept or approve applications for similar or identical drugs from other

sponsors. Any extension under the Patent Term Restoration Act and any extension under GATT are cumulative. There can be no assurance that the Company will be able to take advantage of the patent term extensions or marketing exclusivity provisions of these laws. While the Company cannot predict the effect that such changes will have on its business, the adoption of such changes could have a material adverse effect on the Company' ability to protect its proprietary information and sustain the commercial viability of its products. Furthermore, the possibility of shorter terms of patent protection, combined with the lengthy FDA review process and possibility of extensive delays in such process, could effectively further reduce the term during which a marketed product could be protected by patents.

The Company also relies on trade secrets and proprietary know-how. The Company has been and will continue to be required to disclose its trade secrets and proprietary know-how to employees and consultants, potential corporate partners, collaborators and contract manufacturers. Although the Company seeks to protect its trade secrets and proprietary know-how, in part by entering into confidentiality agreements with such persons, there can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach or that the Company's trade secrets will not otherwise become known or be independently discovered by competitors.

SCIENTIFIC AND OTHER PERSONNEL

At December 31, 1999, the Company had 59 full-time employees, thirty-four of the Company's employees engaged in, or directly support, the Company's research and development activities. Of the employees engaged in research and development activities, eleven hold Ph.D. degrees, one of which also holds a M.D. In the first quarter of 2000, the Company discontinued its drug discovery programs and terminated 11 employees associated with early stage drug discovery.

The Company's success will depend in large part on its ability to attract and retain key employees. The Company's potential growth and expansion into areas and activities requiring additional expertise, such as clinical development and regulatory affairs and manufacturing, are expected to place increased demands on the Company's management skills and resources. These demands are expected to require a substantial increase in management and scientific personnel and the development of additional expertise by existing management personnel. Accordingly, recruiting and retaining management and operational personnel and qualified scientific personnel to perform research and development work in the future will also be critical to the Company's success. There can be no assurance that the Company will be able to attract and retain skilled and experienced management, operational and scientific personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies, universities and other research institutions for such personnel. The failure to attract and retain such personnel or to develop such expertise could have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors -- Dependence on and Need for Additional Key Personnel" and "Management."

RISKS

WE HAVE A HISTORY OF OPERATING LOSSES AND MAY NEVER GENERATE SUFFICIENT REVENUE TO ACHIEVE PROFITABILITY.

We have a history of consistent operating losses. Further, we expect that substantial and increasing operating losses will continue over the next several years. To date, our revenues have been generated principally from sales of Glofil-125 and Inulin and Ethamolin(R). We do not expect Cordox(TM), Ceresine(TM), or any of the compounds currently in pre-clinical testing to be commercially available for a number of years, if at all. Further, our revenues will also be dependent on the approval and sale of Emitasol(R) in conjunction with Shire Pharmaceuticals Group plc. Although new product launches are planned, there can be no assurance that sufficient revenues from new products will be generated. Further, there can be no assurance that we will ever generate sufficient revenues to become profitable. Our ability to achieve a consistent, profitable level of operations will be dependent in large part upon its ability to: acquire additional marketed products; finance product acquisitions; increase sales of current products; finance the growth of our sales and marketing organization; enter into agreements with corporate partners for product research, development and commercialization; obtain regulatory approvals for products; and obtain FDA approval of its manufacturing facility and successfully manufacture products.

WE MAY BE UNABLE TO EXPAND OUR SALES AND MARKETING FORCE IN ORDER TO ACHIEVE ITS COMMERCIAL POTENTIAL

Our current sales and marketing force is not large enough to fully exploit the potential of Glofil-125, Inulin and Ethamolin(R). Further, it is not large enough to directly market and sell the Dermaflo(TM) product line nor does it currently have any personnel with experience in the burn and wound care markets. If we cannot financially support a larger sales force or are unable to add enough qualified people to that organization, then we will not be able to exploit our products' potential, which could materially harm our ability to survive.

IF WE FAIL TO MAINTAIN OR ENTER INTO NEW CONTRACTS RELATED TO COLLABORATIONS AND IN-LICENSED OR ACQUIRED TECHNOLOGY AND PRODUCTS, OUR BUSINESS COULD ADVERSELY BE AFFECTED.

Our business model has been dependent on our ability to enter into licensing and acquisition arrangements with commercial or academic entities to obtain technology or marketed products for development and commercialization. Disputes may arise regarding the inventorship and corresponding rights in inventions and know-how resulting from the joint creation or use of intellectual property by us and its licensors or scientific collaborators. Additionally, many of our existing in-licensing and acquisition agreements contain milestone-based termination provisions. Our failure to meet any significant milestones in a particular agreement could allow the licensor or seller to terminate the agreement. In addition, we may not be able to negotiate additional license and acquisition agreements in the future on acceptable terms, if at all. In addition, current license and acquisition agreements may be terminated, and we may not be able to maintain the exclusivity of its exclusive licenses.

There can be no assurance that any collaborators will commit sufficient development resources, technology, regulatory expertise, manufacturing, marketing and other resources towards developing, promoting and commercializing products incorporating our discoveries. Further, competitive conflicts may arise among these third parties that could prevent them from working

cooperatively with the company. The amount and timing of resources devoted to these activities by the parties could depend on the achievement of milestones by us and otherwise generally will be controlled by other parties. In addition, we expect that our agreements with future collaborators will likely permit the collaborators to terminate their agreements upon written notice to us. This type of termination would substantially reduce the likelihood that the applicable research program or any lead candidate or candidates would be developed into a drug candidate, would obtain regulatory approvals and would be manufactured and successfully commercialized. Therefore, any such termination could materially harm the company's business.

There can be no assurance that any of our collaborations will be successful in developing and commercializing products or that we will receive milestone payments or generate revenues from royalties sufficient to offset its significant investment in product development and other costs. There also can be no assurance that disputes will not arise in the future with our collaborators, including with respect to the ownership of rights to any technology developed pursuant to the collaboration. These and other possible disagreements with our collaborators could lead to delays or interruptions in, or termination of, development and commercialization of certain potential products or could require or result in litigation or arbitration, which could be time-consuming and expensive and could have a material adverse effect on our business, financial condition and results of operations.

WE EXPECT TO INCUR EXPENSE RELATED TO OUR COLLABORATION AGREEMENT WITH SHIRE PHARMACEUTICALS GROUP PLC

We are obligated to fund one-half of clinical development expense for Emitasol under its corporate partnering agreement with Shire Pharmaceuticals Group plc, up to an aggregate of $7 million. Accumulated payments made to Shire amounted to $1,261,000 through December 31, 1999.

OUR SUCCESS DEPENDS IN PART ON TIMELY COMPLETION OF DERMAFLO(TM) MANUFACTURING FACILITY AND THE COMMERCIALIZATION OF DERMAFLO(TM)

In order to commercialize our current Dermaflo(TM) technology, we will need to complete and validate our manufacturing facility in Lee's Summit, Missouri and validate various methods, systems and processes. In addition, the facility must successfully pass an inspection by the FDA and comply with local, state and federal requirements. We cannot provide assurance that we will be able to meet these requirements and no assurance that the facility will pass the FDA inspection. Our failure to meet these requirements or for the facility to pass FDA inspection could materially harm our business.

OUR BUSINESS COULD BE HARMED IF WE ARE UNABLE TO PROTECT OUR PROPRIETARY RIGHTS

Our success will depend in part on its ability to: obtain patents for its products and technologies; protect trade secrets; operate without infringing upon the proprietary rights of others; and prevent others from infringing on our proprietary rights.

We will only be able to protect its proprietary rights from unauthorized use by third parties to the extent that these rights are covered by valid and enforceable patents or are effectively maintained as trade secrets and are otherwise protectable under applicable law. We will, attempt to protect our proprietary position by filing United States and foreign patent applications related to our proprietary products, technology, inventions and improvements that are important to the development of our business.

The patent positions of biotechnology and biopharmaceutical companies involve complex legal and factual questions and, therefore, enforceability cannot be predicted with certainty. Patents, if issued, may be challenged, invalidated or circumvented. Thus, any patents that we own or license from third parties may not provide any protection against competitors. Pending patent applications, we may file in the future, or those we may license from third parties, may not result in patents being issued. Also, patent rights may not provide us with proprietary protection or competitive advantages against competitors with similar technology. Furthermore, others may independently develop similar technologies or duplicate any technology that we have has developed or that we will develop. The laws of some foreign countries may not protect the company's intellectual property rights to the same extent as do the laws of the United States.

In addition to patents, we will rely on trade secrets and proprietary know-how. We currently seek protection, in part, through confidentiality and proprietary information agreements. These agreements may not provide meaningful protection or adequate remedies for proprietary technology in the event of unauthorized use or disclosure of confidential and proprietary information. The parties may not comply or may breach these agreements. Furthermore, our trade secrets may otherwise become known to, or be independently developed by competitors.

Our success will further depend, in part, on its ability to operate without infringing the proprietary rights of others. There can be no assurance that its activities will not infringe patents owned by others. We could incur substantial costs in defending itself in suits brought against it or any licensor. Should our products or technologies be found to infringe patents issued to third parties, the manufacture, use and sale of its products could be enjoined, and we could be required to pay substantial damages. In addition, we, in connection with the development and use of its products and technologies, may be required to obtain licenses to patents or other proprietary rights of third parties. No assurance can be given that any licenses required under any such patents or proprietary rights would be made available on terms acceptable to the company, if at all.

OUR INABILITY TO SECURE ADDITIONAL FUNDING COULD LEAD TO A LOSS OF YOUR INVESTMENT

We will require substantial capital resources in order to acquire new products, increase sales of existing products, and conduct its various clinical development programs. Our future capital requirements will depend on many factors, including the following: product sales performance, cost for expansion of the sales force operating efficiencies, cost of clinical and development programs, and the acquisition of additional product candidates

We will require additional funding, which we anticipate obtaining through corporate partnerships and public or private debt or equity financings.

However, additional financing may not be available to us on acceptable terms, if at all. Further, additional equity financings will be dilutive to our shareholders. If sufficient capital is not available, then we may be required to delay, reduce the scope of, eliminate or divest one or more of its product acquisition, clinical programs or manufacturing efforts. Failure on our part to obtain additional financing or generate sufficient revenues may also lead to a default under the financial condition covenants of our bank credit line agreements. We believe that our existing capital resources, committed payments under existing corporate partnerships and licensing arrangements and interest income will be sufficient to fund its current and planned operations the into first quarter of 2001.

OUR BUSINESS COULD BE HARMED BY INTENSE COMPETITION

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. A number of companies are pursuing the development of pharmaceuticals and products which target the same diseases and conditions that we will target. For example, there are products on the market that compete with Glofil-125, Inulin and Ethamolin(R) and there is another company in late stage clinical trials of a drug for sickle cell crisis patients, which if approved by the FDA, would compete with Cordox(TM).

Moreover, technology controlled by third parties that may be advantageous to our business, may be acquired or licensed by competitors of the company, preventing us from obtaining this technology on favorable terms, or at all.

Our ability to compete will depend on our abilities to create and maintain scientifically advanced technology and to develop and commercialize pharmaceutical products based on this technology, as well as our ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary technology or processes and secure sufficient capital resources for the expected substantial time period between technological conception and commercial sales of products based upon our technology.

Many of the companies developing competing technologies and products have significantly greater financial resources and expertise in development, manufacturing, clinical testing, obtaining regulatory approvals and marketing than we do. Other smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies and other public and private research organizations may also seek patent protection and establish collaborative arrangements for clinical development, manufacturing and marketing of products similar to ours. These companies and institutions will compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs. We will face competition with respect to: product efficacy and safety; the timing and scope of regulatory approvals; availability of resources; reimbursement coverage; price; and patent position, including potentially dominant patent positions of others.

There can be no assurance that competitors will not succeed in developing technologies and drugs that are more effective or less costly than any which we are developing or which would render our technology and future drugs obsolete and noncompetitive. In addition, our competitors

may succeed in obtaining the approval of the FDA or other regulatory approvals for drug candidates more rapidly than we will. Companies that complete clinical trials, obtain required regulatory agency approvals and commence commercial sale of their drugs before their competitors may achieve a significant competitive advantage, including patent and FDA marketing exclusivity rights that would delay our ability to market specific products. There can be no assurance that drugs resulting from our development efforts, or from the joint efforts of our existing or future collaborative partners, will be able to compete successfully with competitors' existing products or products under development or that we will obtain regulatory approval in the United States or elsewhere.

OUR RELIANCE ON CONTRACT MANUFACTURERS COULD ADVERSELY AFFECT OUR BUSINESS

We will rely on third party contract manufacturers to produce the clinical supplies for Emitasol(R), Cordox(TM) and Ceresine(TM) and for the marketed products, Glofil-125, Inulin and Ethamolin(R), and other products that may be developed or commercialized in the future. Third party manufacturers may not be able to meet our needs with respect to timing, quantity or quality. If we are unable to contract for a sufficient supply of required products and substances on acceptable terms, or if we should encounter delays or difficulties in our relationships with its manufacturers, we would lose sales and its clinical testing would be delayed, leading to a delay in the submission of products for regulatory approval or the market introduction and subsequent sales of these products. Moreover, contract manufacturers that we may use must continually adhere to current good manufacturing practices regulations enforced by the FDA. If the facilities of these manufacturers cannot pass an inspection, the FDA approval of our products will not be granted.

OUR PRODUCTS MAY NOT BE ACCEPTED BY THE MARKET

Any products that we successfully develop, if approved for marketing, may never achieve market acceptance. These products, if successfully developed, will compete with drugs and therapies manufactured and marketed by major pharmaceutical and other biotechnology companies. Physicians, patients or the medical community in general may not accept and utilize any products that we may develop or that our corporate partners may develop.

The degree of market acceptance of any products that we develop will depend on a number of factors, including: the establishment and demonstration of the clinical efficacy and safety of the product candidates; their potential advantage over alternative treatment methods; reimbursement policies of government and third-party payors; and our ability to effectively market and promote the products.

OUR BUSINESS AND PRODUCT APPROVALS MUST COMPLY WITH STRICT GOVERNMENT REGULATION

Any products that we develop are subject to regulation by federal, state and local governmental authorities in the United States, including the FDA, and by similar agencies in other countries. Any product that we develop must receive all relevant regulatory approvals or clearances before it may be marketed in a particular country. The regulatory process, which includes extensive preclinical studies and clinical trials of each product to establish its safety and efficacy, is uncertain, can take many years and requires the expenditure of substantial resources. Data obtained

from preclinical and clinical activities are susceptible to varying interpretations which could delay, limit or prevent regulatory approval or clearance. In addition, delays or rejections may be encountered based upon changes in regulatory policy during the period of product development and the period of review of any application for regulatory approval or clearance for a product. Delays in obtaining regulatory approvals or clearances: would adversely affect the marketing, selling and distribution of any products that we develop or by our corporate partners; could impose significant additional costs on us and our corporate partners; could diminish any competitive advantages that we or our corporate partners may attain; and could adversely affect our ability to receive royalties and generate revenues and profits.

Regulatory approval, if granted, may entail limitations on the indicated uses for which the new product may be marketed that could limit the potential market for the product. Product approvals, once granted, may be withdrawn if problems occur after initial marketing. Furthermore, manufacturers of approved products are subject to pervasive review, including compliance with detailed regulations governing FDA good manufacturing practices. The FDA has recently revised the good manufacturing practices regulations. Failure to comply with applicable regulatory requirements can result in warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to grant marketing applications and criminal prosecution.

In addition, we cannot predict the extent of government regulations or the impact of new governmental regulations that might have an adverse effect on the development, production and marketing of the combined company's products. We may be required to incur significant costs to comply with current or future laws or regulations.

WE WILL FACE UNCERTAINTY RELATED TO PRICING AND REIMBURSEMENT AND HEALTH CARE REFORM

In both domestic and foreign markets, sales of our products will depend in part on the availability of reimbursement from third-party payors such as: government health administration authorities; private health insurers; health maintenance organizations; pharmacy benefit management companies; and other healthcare-related organizations.

Both the federal and state governments in the United States and foreign governments continue to propose and pass new legislation designed to contain or reduce the cost of health care. Existing regulations affecting the pricing of pharmaceuticals and other medical products may also change before any of our or our corporate partners' products are approved for marketing. Cost control initiatives could decrease the price that we receive for any product we or any of our corporate partners may develop in the future. In addition, third-party payors are increasingly challenging the price and cost-effectiveness of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved health care products, including pharmaceuticals. Our or our corporate partners' products may not be considered cost effective or adequate third-party reimbursement may not be available to enable us or our corporate partners to maintain price levels sufficient to realize a return on their investment and that failure could materially harm the company's.

OUR BUSINESS MAY BE AFFECTED BY PRODUCT LIABILITY AND AVAILABILITY OF INSURANCE

Our business will expose it to potential liability risks that are inherent in the testing, manufacturing and marketing of pharmaceutical products. The use of any drug candidates ultimately developed by us or our collaborators in clinical trials may expose it to product liability claims and possible adverse publicity. These risks will expand for any of our drug candidates that receive regulatory approval for commercial sale. Product liability insurance for the pharmaceutical industry is generally expensive, if available at all. We currently have product liability insurance, however, there can be no assurance that we will be able to maintain insurance coverage at acceptable costs or in a sufficient amount, if at all, or that a product liability claim would not harm our reputation, stock price or our business.

WE WILL BE DEPENDENT ON KEY PERSONNEL

We are highly dependent on the services of Charles J. Casamento, President, Chief Executive Officer and Chairman of the Board. Mr. Casamento has executed an employment agreement. However, there can be no assurance that Mr. Casamento will continue to be employed by us in the future. The loss of Mr. Casamento could materially harm our business. The potential growth and expansion of our business is expected to place increased demands on our management skills and resources. These demands are expected to require a substantial increase in management and scientific personnel and the development of additional expertise by existing management personnel. Accordingly, recruiting and retaining management and operational personnel to perform manufacturing, research and development work and qualified scientific personnel development work in the future will also be critical to our success. There can be no assurance that we will be able to attract and retain skilled and experienced management, operational and scientific personnel on acceptable terms given the extensive competition among numerous pharmaceutical and biotechnology companies, universities and other research institutions for such personnel.

WE COULD BE ADVERSELY AFFECTED BY OUTSTANDING LITIGATION

We area defendant in a lawsuit brought in the United States Bankruptcy Court for the Southern District of New York by the Trustee for the Liquidation of the Business of A.R. Baron & Co., Inc. and the Trustee of The Baron Group, Inc., the parent of A.R. Baron. The complaint alleges that A.R. Baron and the Baron Group made preferential or fraudulent transfers of funds us prior to the commencement of bankruptcy proceedings involving A.R. Baron and the Baron Group. The Trustee is seeking return of the funds, totaling approximately $3.2 million. We believe that the Trustee's claims are unfounded and are contesting the allegations in the complaint vigorously. We contend that the transfers challenged by the Trustee relate to (1) the exercise by A.R. Baron in 1995 of unit purchase options issued to it in 1992 as part of its negotiated compensation for underwriting our initial public offering and (2) the repayment by the Baron Group of the principal and interest (at 12% per annum) payments and loan extension fees related to collateralized loans made to it byus in 1995 and 1996. There can be no assurance that we will prevail in this lawsuit. Further, if we do not prevail, then there is no assurance that we will have sufficient insurance coverage to pay any costs, expenses and losses. If we do not prevail and if we do not have sufficient insurance coverage, then the financial condition could be materially harmed.

ITEM 2. PROPERTIES

The Company leases four buildings. The Company headquarters, which includes the Finance, Administration, Sales and Marketing, Clinical Research, Regulatory Affairs and Drug Discovery departments, is located in Hayward California. The building includes 30,000 square feet of laboratory and office space, under a lease that expires in November 2012. The Company has sublet 5,000 square feet of the facility through February 28, 2001. As a result of the Company's termination of its drug discovery programs, the Company will no longer have a need for its 10,000 sq.ft. of laboratory space and intends to sublease the Hayward laboratory space in the first half of 2000. The Company is currently in negotiations with potential sub-lessees for sub-leasing the laboratory space.

The Company leases two buildings in Carlsbad, California. The Company's distribution, quality control and quality assurance functions are located in 18,339 square feet of space located at 2714 Loker Avenue West. In April 1997, the Company subleased its other building in Carlsbad located at 2732 Loker Avenue West to another pharmaceutical company.

The Company has leases on two floors in the 2714 Loker Avenue West property, one of which commenced in April 1996 and has a term of 69 months, and the other of which commenced in November 1996 and has a term of 61 months. The lease on the 2732 Loker Avenue West property commenced in December 1993 and has a term of 81 months. Both leases have clauses providing for rent increases at various points in time during the terms of the leases. The subtenant's lease covers the remainder of the Company' original lease term plus a 36-month option, and the subtenant's rental payments to the Company exceed the Company' rental payments to the landlord. In addition, the sublease provides for annual rent increases.

The Company's manufacturing facility for the Dermaflo(TM) product line is located in Lee's Summit, Missouri. The Company leased temporary space in the Missouri building in December 1998 and began improving certain space to meet its needs for manufacturing the Dermaflo(TM) product line. The Company has been paying monthly operating expenses on the temporary space since inception and began paying monthly rental on the permanent space commencing January 1, 2000.

ITEM 3. LEGAL PROCEEDINGS

In July 1998, The Company was served with a complaint in the United States Bankruptcy Court for the Southern District of New York by the Trustee for the Liquidation of the Business of A.R. Baron & Co., Inc. and the Trustee of The Baron Group, Inc., the parent of A.R. Baron. The complaint alleges that A.R. Baron and the Baron Group made preferential or fraudulent transfers of funds to The Company prior to the commencement of bankruptcy proceedings involving A.R. Baron and the Baron group. The Trustee is seeking return of the funds, totaling $3.2 million. The Company believes that the Trustee's claims are unfounded and intends to contest the allegations in the complaint vigorously. The Company contends that the transfers challenged by the Trustee relate to (1) the exercise by A.R. Baron in 1995 of unit purchase options issued to it in 1992 as part of its negotiated compensation for underwriting the Company' initial public offering and (2) the

repayment by the Baron group of the principal and interest (at 12% per annum) payments and loan extension fees related to collateralized loans made to it by the Company in 1995 and 1996.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On November 5, 1999, we convened a meeting of the shareholders of our Common Stock to approve and adopt five proposals: (1) (i) To approve and adopt the agreement and plan of reorganization dated as of August 4, 1999, among Cypros Pharmaceutical Corporation, Cypros Acquisition Corporation, a newly-formed, wholly-owned subsidiary of Cypros incorporated in Delaware, and RiboGene, Inc., a Delaware corporation, (ii) the merger of Cypros Acquisition Corporation with and into RiboGene and (iii) the issuance of shares of common stock and preferred stock of Cypros pursuant to the agreement and plan of reorganization; (2) To approve an amendment to the Cypros Restated Articles of Incorporation, as amended, to provide for (i) an increase of the authorized shares of common stock to 75,000,000, (ii) an increase of the authorized shares of preferred stock to 7,500,000, (iii) authorize the Cypros board to designate the rights, preferences, privileges and restrictions of additional shares of Cypros preferred stock, (iv) designate shares of Cypros Series A Preferred Stock to be issued in connection with the merger and (v) a change of the Cypros name to Questor Pharmaceuticals, Inc.; (3) To approve an amendment to the Cypros Bylaws, as amended, to change the authorized number of directors, upon the merger, to not less than four nor more than nine directors; (4) To approve and adopt an increase in the authorized shares reserved for issuance under Cypros 1992 Stock Option Plan to 7,500,000 shares; (5) To approve an increase in the authorized shares reserved for issuance under the 1993 Non-Employee Directors' Equity Incentive Plan to 750,000 shares.

Voting for the aforementioned proposals was tabulated as follows:

	For	Against	Abstain	Non-Vote
Proposal 1	10,363,786	935,125	26,882	-
Proposal 2	10,081,446	1,205,425	38,922	-
Proposal 3	9,891,059	1,399,864	34,870	-
Proposal 4	9,286,710	1,994,686	44,397	-
Proposal 5	9,551,512	1,726,784	47,497	-

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

The Common Stock of the Company was quoted on the Nasdaq National Market System under the symbol "CYPR" until January 1998. In January 1998, the Company was listed on the American Stock Exchange, Inc. under the symbol "CYP". On November 17, 1999, the Company changed its name to Questcor Pharmaceuticals, Inc. and began trading under the symbol "QSC".

The following table sets forth for the calendar quarters indicated, the high and low sales prices of the Common Stock on the Nasdaq National Market System and the American Stock Exchange, Inc., as reported in published financial sources, for the periods that the Common Stock was quoted or listed.

	High	Low
Period ended December 31, 1999		
Two months ended 09/30/99	$2.25	$1.81
Quarter ended 12/31/99	$1.94	$1.13
Year ended July 31, 1999		
First Quarter	$3.88	$2.25
Second Quarter	$4.19	$2.25
Third Quarter	$3.19	$2.19
Fourth Quarter	$2.69	$1.18
Year ended July 31, 1998		
First Quarter	$6.12	$3.75
Second Quarter	$6.00	$3.81
Third Quarter	$4.75	$3.50
Fourth Quarter	$5.43	$3.37

The last sales price of the Common Stock on March 23, 2000 was $3.44. As of March 23, 2000, there were approximately 248 holders of record of the Company's the Common Stock.

The Company has not paid any dividends since its inception and does not intend to pay any dividends on its Common Stock in the foreseeable future. The Company did not sell any securities during the fourth quarter of fiscal 1999.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth certain financial data with respect to The Company. The selected financial data should be read in conjunction with the Company's Financial Statements (including the Notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Report.

	FIVE MONTHS ENDED DECEMBER 31		YEARS ENDED JULY 31,				
	1999(1)	1999	1999	1998	1997	1996	1995
		(unaudited)	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:							
Net product sales	$ 624	$ 897	$ 2,518	$ 3,446	$ 2,428	$ 1,275	$ --
Total revenues	956	908	2,569	3,616	2,527	1,546	250
Total operating costs and expenses	23,257	3,982	10,026	9,910	(8,004)	4,988	3,910
Loss from operations	(22,301)	(3,074)	(7,457)	(6,294)	(5,477)	(3,847)	(3,660)
Other income (expense), net	91	335	673	721	(1,198)	758	547
Net loss	(22,210)	(2,739)	(6,784)	(5,573)	(6,675)	(3,090)	(3,113)
Net loss per share - - basic and diluted	(1.22)	(0.17)	(0.43)	(0.37)	(0.54)	(0.27)	(0.32)
Shares used in computing net loss per share - basic and diluted	18,240	15,712	15,712	15,187	12,303	11,518	9,860

	DECEMBER 31	AT JULY 31,				
	1999	1999	1998	1997	1996	1995
		(in thousands)				
BALANCE SHEET DATA:						
Cash, cash equivalents and investments	$ 21,699	$ 7,263	$ 13,445	$ 14,567	$ 15,997	$ 13,442
Working capital	16,943	5,261	13,379	13,076	15,384	12,934
Total assets	32,221	13,140	19,736	21,345	20,266	14,175
Long-term obligations	6,078	147	217	4,176	6,624	195
Common stock	65,423	41,497	41,328	32,345	23,421	20,945
Accumulated deficit	(51,724)	(29,514)	(22,730)	(17,157)	(10,482)	(7,392)
Total shareholders' equity	18,707	11,914	18,511	15,026	12,635	13,366

(1) Includes the results of operations of RiboGene, Inc. from November 17, 1999 through December 31, 1999, including a one-time charge for restructuring costs and a non-cash charge for acquired in process research and development costs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties, including statements regarding the period of time during which Questcor's existing capital resources and income from various sources will be adequate to satisfy its capital requirements. Questcor's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, as well as in the sections entitled "Business", "Licenses", "Manufacturing", "Sales and Marketing", "Competition", "Government Regulation", "Patents and Proprietary Rights", those discussed in the S-4 Registration Statement File No. 333-87611 filed with U.S. Securities and Exchange Commission, as well as those discussed in any documents incorporated by reference herein or therein.

OVERVIEW

The Company was founded in 1990, commenced its research and development activities in 1991, completed an initial public offering (the "IPO") in November 1992, commenced clinical trials in December 1994, acquired two FDA approved products, Glofil-125 and Inulin, in August 1995, acquired a third FDA approved product, Ethamolin(R), in November 1996, and acquired the Dermaflo(TM) topical burn/wound care technology and two FDA approved products, Neoflo(TM) and Sildaflo(TM), in November 1997. On November 17, 1999, the Company changed its name from Cypros Pharmaceutical Corporation to Questcor Pharmaceuticals, Inc. after completing a merger with RiboGene, Inc. As a result of the merger, each outstanding share of RiboGene's common stock was converted into 1.509 shares of common stock of the Company and each outstanding share of RiboGene Series A preferred stock was converted into 1.509 shares of Series A preferred stock of the Company. The merger resulted in the issuance of approximately 8,735,000 shares of the Company's common stock and 2,156,000 shares of the Company's Series A preferred stock, valued at an aggregate of $23,643,000. The purchase price also included approximately $5,310,000 related to outstanding RiboGene stock options and outstanding warrants assumed by the Company and $1,065,000 of transaction costs, for an aggregate purchase price of $30,019,000.

The merger transaction was accounted for as a purchase. A write-off of $15,168,000 for in-process research and development acquired from RiboGene is included in the Company's statement of operations for the five months ended December 31, 1999. The intangible assets acquired will be amortized over their estimated useful lives of 3 years. The Company has sustained an accumulated deficit of $51,724,000 from inception through December 31, 1999. The Company expects to incur significant operating losses over the next several years due primarily to expanded clinical testing of its product candidates and commercialization activities. Results of operations may vary significantly from quarter to quarter depending on, among other factors, the results of the Company's clinical testing, the timing of certain expenses, the establishment of strategic alliances and corporate partnering and

the receipt of milestone payments.

RESULTS OF OPERATIONS

Five months ended December 31, 1999 compared to the five months ended December 31, 1998

For the five months ended December 31, 1999, the Company incurred a net loss of $22,210,000, or $1.22 per share, compared to a net loss of $2,739,000, or $0.17 per share, for the five months ended December 31, 1998. During the five months ended December 31, 1999, the Company completed its merger with RiboGene, Inc. As a result of the merger, operations for the period include a one-time non-cash charge of $15,168,000 for acquired in-process research and development and a $1,530,000 one-time charge for restructuring costs, primarily related to severance of former Cypros employees. Exclusive of these one-time charges, net loss for the period totaled $5,512,000, $0.30 per share, representing a $2,773,000 increase over the comparable 1998 period.

Revenue for the period ending December 31, 1999, totaled $956,000 as compared to $908,000 for the 1998 period. The principal factor for the increase in revenue was the addition of contract research and grant revenue associated with RiboGene. While total revenue increased in the current period, wholesale stocking during previous periods and competition from certain medical devices in the Ethamolin(R) market contributed to a 30% or $273,000 decrease in product sales. Management is in the process of developing a marketing plan that will address competitive products in the Ethamolin(R) market.

Costs of product sales increased 85% for the five months ending December 31, 1999, compared to the same period ending December 31, 1998. The significant increase in the cost of product sales results from the initial production and sale of the Company's topical triple antibiotic wound care product in 1999. Management anticipates that the gross margin for this product will improve as production levels increase. It is further anticipated, that the overall Company gross margin will decrease as the lower margin wound care products are added to the current high margin drug products. Gross profit for the five month period ending December 31, 1999 totaled $124,000 or 20% compared to $626,000 or 70% in the prior year same period when sales included Ethamolin(R), Glofil-125 and Inulin only.

Sales and marketing expense increased by 29% to $946,000 during the five months ended December 31, 1999 from $733,000 in the comparable 1998 period. This increase is principally due to personnel recruiting costs.

Increased patient enrollment and site costs related to the Cordox(TM) sickle cell trial contributed to a $213,000, or 20% increase in product development expense, as such costs increased to $1,266,000 during the five months ended December 31, 1999 from $1,053,000 during the comparable 1998 period.

During the five months ended December 31, 1999, discovery research expense increased by $1,008,000, or 173% to $1,589,000 from $581,000 during the comparable period in 1998. This increase is principally due to increases in expenditures related to the development of the Dermaflo(TM) technology and the acquisition of the RiboGene drug discovery and drug development efforts in November 1999. In January 2000, the Company terminated its research collaboration with Dainippon. As a result, the Company discontinued all early stage drug discovery programs.

There are significant variances in expenses between the five months ended December 31, 1999 and the comparable 1998 period as a result of expenses associated with the RiboGene merger. These 1999 expenses include: a non-cash charge of $15,168,000 for acquired in-process research and development costs associated with Emitasol(R); and a charge of $1,530,000 for restructuring costs, principally for severance expenses. Costs associated with the consolidation of the corporate offices and combination of administrative functions resulted in a $847,000, or 101%, increase in general and administrative expenses to $1,684,000 for the five months ended December 31, 1999, as compared to $837,000 for the same period in 1998. Depreciation and amortization increased 13% to $574,000 in 1999 from $507,000 in the comparable 1998 period, principally due to the amortization of intangible assets associated with the acquisition of RiboGene. Interest and other income decreased by 71% to $86,000 in fiscal 1999 from $300,000 in the prior fiscal year, as a result of a decrease in average cash balances in 1999.

Year ended July 31, 1999 compared to year ended July 31, 1998

During the fiscal year ended July 31, 1999, the Company sustained a loss of $6,784,000, or $0.43 per share, compared to a loss of $5,573,000 or $0.37 per share, for the prior fiscal year. Net sales for fiscal 1999 of $2,518,000 from Glofil, Inulin and Ethamolin, plus other income of $724,000, resulting from interest, grant, and rental income, were offset by $10,026,000 in costs of sales and expenses for sales and marketing, general and administrative, product development, discovery research and depreciation and amortization. During the prior fiscal year, the net sales of $3,446,000 from the sales of Ethamolin, Glofil and Inulin and other income of $1,150,000 (principally interest income) was offset by $9,910,000 in costs of sales and expenses for sales and marketing, general and administrative, clinical testing and regulatory, and pre-clinical research and development as well as depreciation and amortization and $259,000 in amortization of discounts on its mandatory convertible notes.

Net sales declined during the fiscal year ended July 31, 1999, principally due to increasing competition in the market served by Ethamolin and the expected decline in Glofil sales volume due to the termination in the third quarter of fiscal 1998 of a customer's two clinical trials which required Glofil to be used as part of their protocols. In addition, during the fourth quarter of fiscal 1999, the Company commenced shipments of the topical triple antibiotic wound care product, incorporating the Dermaflo technology, to its marketing partner, NutraMax Products, Inc., and thus, began introducing the related costs to the cost of sales

Grant revenue declined 70% during fiscal 1999 to $51,000 from $170,000 in fiscal 1998, as there was only one grant in process for much of fiscal 1999, versus two during the prior fiscal year. During the last month of fiscal year ended July 31, 1999, the Company received a two-year federal grant for its glial chloride channel blocker program.

Sales and marketing expense increased by 30% to $1,703,000 in fiscal 1999 from $1,310,000 in the prior fiscal year, principally due to the recruiting cost of hiring additional personnel, additional costs associated with promotional items and advertising, the cost of a clinical study of Glofil to prove the viability of a 45-minute test, and regulatory consulting expense related to these studies.

General and administrative expenses decreased by 19% to $2,261,000 in fiscal 1999, from $2,802,000 in the comparable 1998 period. The decrease resulted from the fact that the 1998 period included legal and administrative costs associated with the Dermaflo acquisition.

Discovery research expense increased by 27% to $1,614,000 in fiscal 1999 from $1,267,000 in the prior fiscal year, principally due to expenditures associated with the development of the Dermaflo(TM) technology.

Interest and other income decreased by 27% to $590,000 in fiscal 1999 from $809,000 in the prior fiscal year, principally because Questcor had a larger investment portfolio during the prior fiscal year.

Rental income net of related expenses decreased by 51% to $83,000 in fiscal 1999 from $171,000 in the prior fiscal year, principally due to the increases in rent expense and amortization of tenant improvement expense in fiscal 1999.

The amortization of the discount and costs on Questcor's mandatorily convertible notes was completed in fiscal 1998, and therefore, Questcor did not have these expenses in fiscal 1999.

Year ended July 31, 1998 compared to year ended July 31, 1997

During the fiscal year ended July 31, 1998, the Company sustained a loss of $5,573,000, or $0.37 per share, compared to a loss of $6,675,000, or $0.54 per share, for the prior fiscal year. Net sales for fiscal 1998 of $3,466,000 from sales of Glofil, Inulin and Ethamolin(R), plus other income of $1,150,000, resulting from interest, grant, and rental income, were offset by $9,910,000 in costs of sales and, expenses for sales and marketing, general and administrative, clinical testing and regulatory, pre-clinical research and development and depreciation and amortization and $259,000 in amortization of discount and costs on its mandatorily convertible notes. During the prior fiscal year, the net sales of $2,428,000 for sales of Glofil and Inulin and other income of $761,000, principally interest income, was offset by $8,004,000 in cost of sales, and expenses for sales and marketing, general and administrative, clinical testing and regulatory, and pre-clinical research and development as well as depreciation and amortization and $1,860,000 in amortization of discount and costs on the notes.

During the third quarter of fiscal 1998, the Company announced that its largest Glofil customer had informed the Company that it would be terminating two clinical trials which require Glofil to be used as part of their protocols, which adversely affected sales in 1998 as well as subsequent periods.

Sales and marketing expense increased by 32% to $1,310,000 in fiscal 1998 from $994,000 in the prior fiscal year, principally as a result of additional promotional costs for Glofil and increased payroll expense from pay raises and the hiring of additional personnel.

General and administrative expense increased by 17% to 2,802,000 in fiscal 1998 from $2,397,000 in the prior fiscal year. The increase resulted from legal costs and administrative expenses associated with the Dermaflo(TM) acquisition.

Product development expense increased by 28% to $2,521,000 in fiscal 1998 from $1,967,000 in the prior fiscal year, principally as the result of increased staffing in the quality assurance/quality control department, increased use of data input and management, statistical and other consultants to accelerate, finish and report on the Company's various clinical trials and certain toxicology studies performed during the period.

Discovery research expense increased by 23% to $1,267,000 in fiscal 1998 from $1,032,000 in the prior fiscal year, principally due to a decrease in staffing and the completion of specific contract studies.

Depreciation and amortization expense increased by 15% to $1,239,000 in fiscal 1998 from $1,075,000 in the prior fiscal year, principally as a result of the acquisition of Ethamolin during the prior year and the related amortization of that purchased technology.

Sublease income increased from $63,000 to $171,000 in fiscal 1998 due to the sublease of the Company's former corporate headquarters. Interest and other income increased by 22% to $809,000 in fiscal 1998 from $662,000 in the prior fiscal year, principally due to the additional interest earned on the proceeds from the exercise of the Company's Redeemable Class B Warrants in November 1997. Research and grant revenue increased 72% to $170,000 in fiscal 1998 from $99,000 in the prior fiscal year, principally due to the receipt of two additional federal grants during fiscal 1998 versus the receipt of one in the prior fiscal year. The amortization of discount and costs on the notes decreased 86% to $259,000 in fiscal 1998 from $1,860,000 in the prior fiscal year. The majority of the principal amount of the notes was converted in the prior year, and thus, a larger amount of amortization expense occurred. The remaining principal balance of the notes was converted in fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1999, the Company had cash, cash equivalents and short-term investments of $21,699,000 compared to $5,474,000, at July 31, 1999. At December 31, 1999,

working capital was $16,943,000, compared to $5,261,000 at July 31, 1999. The increase in these items is principally the result of cash and cash equivalents acquired in the RiboGene merger and the reclassification of the Company's investments to available-for-sale from held-to-maturity in 1999.

The Company has financed its operations since incorporation primarily through public offerings, the private sale of common stock and preferred stock and from product sales. Through December 31, 1999, the Company has raised approximately $35.0 million from the sale of common and preferred stock. The Company's capital expenditures and payments under capital lease and long-term debt obligations aggregate approximately $130,000 and $91,000 for the five months ended December 31, 1999, and 1998 and $203,000, $200,000 and $192,000 for the years ended July 31, 1999, 1998 and 1997, respectively. Cash used to fund operating activities was approximately $4,944,000 and $2,080,000 for the five months ended December 31, 1999 and 1998, and $5,124,000, $3,904,000 and $3,460,000 for the years ended July 31, 1999, 1998 and 1997, respectively.

As a result of the merger with RiboGene, the Company assumed $5.0 million of long-term debt financing with a bank. The note requires monthly interest payments, at prime plus 1% (9.5% at December 31, 1999), with the principal payment due at the end of the three-year term. The note is collateralized by a perfected security interest in all unencumbered assets of the Company and requires that the Company maintain its depository accounts with the bank with a minimum of $5.0 million in aggregate cash and depository balances. The Company is also required to comply with financial covenants based on certain ratios.

The Company leases four buildings with lease terms that range from 3 to 15 years and annual rent payments for 2000 are estimated to be $1,222,000. When the Company discontinued its drug discovery operations in early 2000, it no longer required the laboratory space. As a result, the Company intends to sublease the laboratory portion of the Hayward facility during the first half of 2000.

The Company anticipates that its cash and cash equivalents, projected income from product sales and interest income, will enable the Company to maintain its current and planned operations into the first quarter of 2001. However, there can be no assurance that the Company will not require additional funding prior to such time. The Company's future funding requirements will depend on many factors, including; any expansion or acceleration and the breath of the Company's development programs; the results of preclinical studies and clinical trials conducted by the Company or its collaborative partners or licensees, if any; the acquisition and licensing of products, technologies or compounds, if any; the Company's ability to manage growth; competing technological and market developments; time out costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims; the receipt of licensing or milestone fees from current or future collaborative and license agreements, if established; the timing of regulatory approvals and other factors. See "Risk Factors - Need for Additional Capital's Uncertainty of Additional Funding".

The Company expects to seek additional funds through public or private equity financings, collaborations or from other sources. There can be no assurance that funds can be obtained on desirable terms or at all. The Company may seek to raise additional capital whenever conditions in the financial markets are favorable, even if the Company does not have an immediate need for additional cash at that time.

Acquisition of RiboGene, Inc. Development Program

Emitasol is the primary RiboGene development program acquired in November 1999. This program was assigned a value of $15,168,000 which was charged to acquired in-process research and development. The Company's management is primarily responsible for estimating the fair value of the purchased in-process research and development. The program has been valued based on a discounted probable future cash flow analysis using discount rates and probability of technical success factors which management believes adequately reflects the substantial risk of drug development. In the valuation model, it is assumed that clinical trials are successfully completed, regulatory approval to market the product is obtained and the Company is able to manufacture the products in commercial quantities. Future cash flows, if any, will result primarily from milestone and royalty payments from Roberts and other licenses of Emitasol(R). Each of these activities is subject to significant risks and uncertainties.

IMPACT OF THE YEAR 2000 ISSUE

The Year 2000 problem is the result of computer applications being written using two digits rather than four digits to define the applicable year. Any of the Company' computer applications and computer applications used by any of the Company' customers, collaborators and manufacturers that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruption of operations.

The Company tested its key computer systems and equipment, including financial, informational and operational systems, and determined that these systems were largely Year 2000 compliant. The Company completed upgrades to the systems which we determined were not Year 2000 compliant. To date, the Company has experienced no Year 2000 related problems with its information or other business systems.

In addition to risks associated with the Company's computer systems and equipment, the Company has relationships with and are to varying degrees dependent upon, a large number of third parties that provide the Company with information, goods and services. These include financial institutions, suppliers, vendors, research partners and governmental entities. To date, the Company is not aware of any significant Year 2000 problems encountered by its key suppliers.

The total cost of the Year 2000 systems assessment and upgrades was funded through operating cash flows, and have been expensed. The financial impact of making the required systems changes was approximately $30,000.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board Issued Statement of Financial Accounts Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company has determined that the adoption of SFAS 133, which will be effective for the year ending December 2001, will have no impact on its financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition", which provides guidance on the recognition, presentation and disclosure in the financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. Management believes that the Company's revenue recognition policy is in compliance with the provisions of SAB 101 and the impact of SAB 101 will have no material affect on its financial position or results of operations.

ITEM. 7(a) QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RATE RISK

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company does not use derivative financial instruments in its investment portfolio. The Company places its investment with high quality issuers and follows internally developed guidelines to limit the amount of credit exposure to any one issuer. Additionally, in an attempt to limit interest rate risk, the Company follows guidelines to limit the average and longest single maturity dates. The Company is adverse to principal loss and ensures the safety and preservation of its invested funds by limiting default, market and reinvestment risk. The Company's investments include money market accounts, commercial paper and corporate notes, and all such investment held in the Company's portfolio as of December 31, 1999, mature in 2000 and 2001. The table below presents the amounts and related interest rates of the Company's investment portfolio as of December 31, 1999.

	2000	2001	TOTAL	FAIR VALUE 12/31/99
	(IN THOUSANDS, EXCEPT INTEREST RATES)			
Assets				
Cash and cash equivalents	$10,912	$--	$10,912	$10,912
Average interest rate	5.19%		--	--
Short-term investments	10,299	488	10,787	10,787
Average interest rate	5.37%	7.5%	--	--
Liabilities				
Notes payable	--	$5,000	$ 5,000	$ 5,000
Average interest rate	--	9.5%	--	--

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial Statements of The Company and Report of Ernst & Young LLP, Independent Auditors are filed as exhibits hereto, listed under Item 14 of this Report and incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required is hereby incorporated by reference from the information contained in the Company's definitive Proxy Statement with respect to the Company's annual Meeting of Shareholders, filed with the Commission pursuant to Regulation 14A (the "Proxy Statement") under the headings "Nominees" and "Executive Officers".

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is hereby incorporated by reference from information continued in the Proxy Statement under the heading "Executive Compensation".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is hereby incorporated by reference from information contained in the Proxy Statement under the heading of "Security Ownership of Certain Beneficial Owners and Management".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is hereby incorporated by reference from information contained in the Proxy Statement under the heading "Certain Transactions" and "Executive Compensation".

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) (1)(2) Financial Statements and Schedules.

The financial statements are incorporated herein by reference from Exhibit 99.1, which begins with the Table of Contents on Page F- 1.

(a) (3) Exhibits.

See Exhibit Index on page

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUESTCOR PHARMACEUTICALS, INC.

By /s/ Charles J. Casamento

Charles J. Casamento
Chairman of the Board,
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles J. Casamento and Hans P. Schmid, and each of them, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Charles J. Casamento Charles J. Casamento	Chairman of the Board, President and Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2000
/s/ Hans P. Schmid Hans P. Schmid	Vice President, Finance & Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2000
/s/ Robert F. Allnutt Robert F. Allnutt	Director	March 30, 2000
/s/ Digby W. Barrios Digby W. Barrios	Director	March 30, 2000
/s/ Frank Sasinowski Frank Sasinowski	Director	March 30, 2000
/s/ Jon Saxe Jon Saxe	Director	March 30, 2000
/s/ Roger G. Stoll, Ph.D. Roger G. Stoll	Director	March 30, 2000
/s/ Virgil Thompson Virgil Thompson	Director	March 30, 2000

EXHIBIT INDEX

Exhibit Number	Description
2.1	Merger Agreement entered into August 4, 1999, by and among: Cypros Pharmaceutical Corporation, a California corporation ("Parent"); Cypros Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"); and RiboGene, Inc., a Delaware corporation (the "Company").
10.1	Memorandum of Understanding entered into January 26, 2000 by and between Questcor Pharmaceuticals, Inc., a California corporation, and Dainippon Pharmaceuticals Co., LTD, a corporation organized under the laws of Japan.
23.1	Consent of Ernst & Young.
27.1	Financial Data Schedule.
99.1	Financial Statements and Schedules.

EXHIBIT 2.1

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AGREEMENT AND PLAN OF REORGANIZATION

among:

CYPROS PHARMACEUTICAL CORPORATION,
a California corporation;

CYPROS ACQUISITION CORPORATION,
a Delaware corporation; and

RIBOGENE, INC.,
a Delaware corporation

Dated as of August 4, 1999

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EXHIBITS

Exhibit A	-	Certain Definitions
Exhibit B	-	Directors and Officers of Parent and Surviving Corporation
Exhibit C	-	Form of Amended and Restated Articles of Incorporation of Parent
Exhibit D	-	Form of Amended Bylaws of Parent
Exhibit E-1	-	Form of Voting Agreement
Exhibit E-2	-	Form of Waiver and Voting Agreement
Exhibit E-3	-	Form of Voting Agreement
Exhibit F	-	Form of Affiliate Agreement
Exhibit G	-	Company Consents
Exhibit H	-	Charles J. Casamento Employment Agreement
Exhibit I-1	-	Paul J. Marangos Separation and Consulting Agreement
Exhibit I-2	-	Paul J. Marangos Executive Severance Benefits Agreement
Exhibit J	-	Parent Consents

COMPANY DISCLOSURE SCHEDULE

2.3(a)
2.3(b)
2.10(c)
2.10(d)
2.12(a)
2.12(d)
2.13
2.14
2.16
2.24(a)

PARENT DISCLOSURE SCHEDULE

3.3(a)
3.3(b)
3.10(c)
3.10(d)
3.12(a)
3.12(d)
3.13
3.14
3.16
3.24(a)

An extra section break has been inserted above this paragraph. Do not delete this section break if you plan to add text after the Table of Contents/Authorities. Deleting this break will cause Table of Contents/Authorities headers and footers to appear on any pages following the Table of Contents/Authorities.

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION ("Agreement") is made and entered into as of August 4, 1999, by and among: CYPROS PHARMACEUTICAL CORPORATION, a California corporation ("Parent"); CYPROS ACQUISITION CORPORATION, a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"); and RIBOGENE, INC., a Delaware corporation (the "Company"). Certain capitalized terms used in this Agreement are defined in Exhibit A.

RECITALS

A. Parent, Merger Sub and the Company intend to effect a merger of Merger Sub into the Company in accordance with this Agreement and the Delaware General Corporation Law (the "Merger"). Upon consummation of the Merger, Merger Sub will cease to exist, and the Company will become a wholly owned subsidiary of Parent.

B. It is intended that the Merger qualify as a tax-free reorganization within the meaning of Section 368(a) of the Code. For financial reporting purposes, it is intended that the Merger be accounted for as a "purchase."

C. The respective boards of directors of Parent, Merger Sub and the Company have approved and adopted this Agreement and approved the Merger.

D. In order to induce Parent and the Company to enter into this Agreement and to consummate the Merger, certain shareholders of Parent and stockholders the Company are entering into Voting Agreements pursuant to which they are agreeing to vote in favor of the adoption and approval of this Agreement and the approval of the Merger.

AGREEMENT

The parties to this Agreement, intending to be legally bound, agree as follows:

1. DESCRIPTION OF TRANSACTION

1.1 MERGER OF MERGER SUB INTO THE COMPANY. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.3), Merger Sub shall be merged with and into the Company, and the separate existence of Merger Sub shall cease. The Company will continue as the surviving corporation in the Merger (the "Surviving Corporation").

1.2 EFFECT OF THE MERGER. The Merger shall have the effects set forth in this Agreement and in the applicable provisions of the Delaware General Corporation Law (the "DGCL").

1.3 CLOSING; EFFECTIVE TIME. The consummation of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Cooley Godward LLP, located at 4365 Executive Drive, Suite 1100, San Diego, California, at 10:00 a.m. on a date to be mutually agreed by the parties (the "Closing Date"), which shall be no later than

the second business day after the satisfaction or waiver of the conditions set forth in Sections 6 and 7. Contemporaneously with or as promptly as practicable after the Closing, the parties hereto shall cause a properly executed certificate of merger conforming to the requirements of the DGCL (the "Certificate of Merger") to be filed with the Secretary of State of the State of Delaware. The Merger shall take effect at the time the Certificate of Merger is filed with the Secretary of State of the State of Delaware or at such later time as may be specified in the Certificate of Merger (the "Effective Time").

1.4 CHARTERS AND BYLAWS; DIRECTORS AND OFFICERS. Unless otherwise determined by Parent and the Company prior to the Effective Time:

(a) Parent shall take all necessary actions, including expanding the size of its board of directors, such that the directors and officers of Parent immediately after the Effective Time shall be the individuals identified on Exhibit B;

(b) the Articles of Incorporation of Parent shall be amended and restated as of the Effective Time to (i) increase the authorized common stock and preferred stock of Parent, (ii) establish blank check preferred stock, (iii) designate the rights, preferences and privileges of the Parent Preferred Stock, and (iv) effect such other amendments as are set forth in the form of Amended and Restated Articles of Incorporation attached hereto as Exhibit C (the "Amended Articles"), and the Bylaws of Parent shall be amended and restated as of the Effective Time to increase the authorized number of directors on the Board of Directors;

(c) the Certificate of Incorporation of the Surviving Corporation shall be amended and restated as of the Effective Time to conform to the Certificate of Incorporation of Merger Sub as in effect immediately prior to the Effective Time;

(d) the Bylaws of the Surviving Corporation shall be amended and restated as of the Effective Time to conform to the Bylaws of Merger Sub as in effect immediately prior to the Effective Time; and

(e) the directors and officers of the Surviving Corporation immediately after the Effective Time shall be the respective individuals identified in Exhibit B.

1.5 CONVERSION OF SECURITIES.

(a) Subject to Sections 1.5(b) through (e), at the Effective Time, by virtue of the Merger and without any further action on the part of Parent, Merger Sub, the Company or any stockholder of the Company:

(i) any shares of Company Common Stock then held by the Company or any Subsidiary of the Company (or held in the Company's treasury) shall be canceled and retired and shall cease to exist at the Effective Time, and no consideration shall be delivered in exchange therefor;

(ii) any shares of Company Common Stock then held by Parent, Merger Sub or any other Subsidiary of Parent shall be canceled and retired and shall cease to exist at the Effective Time, and no consideration shall be delivered in exchange therefor;

(iii) each share of the common stock, $0.001 par value per share, of Merger Sub then outstanding shall be converted into one share of common stock of the Surviving Corporation;

(iv) except as provided in clauses "(i)" and "(ii)" of this sentence, each share of Company Common Stock then outstanding shall be converted into the right to receive (A) one share of Parent Common Stock multiplied by (B) the Exchange Ratio (as defined in Section 1.5(b)(ii) (Parent and the Company agree that as of the date of this Agreement (without taking into account any of the potential adjustments provided in this Agreement), the Exchange Ratio would be 1.494).

(v) each share of Company Preferred Stock then outstanding shall be converted into the right to receive (A) one share of Parent Preferred Stock multiplied by (B) the Exchange Ratio.

(b) For purposes of this Agreement:

(i) The term "Company Outstanding Shares" shall mean, as of the close of business on the day immediately preceding the date of the Company Stockholders' Meeting, the sum of (A) the total number of outstanding shares of Company Common Stock, (B) the total number of shares of Company Common Stock into which all outstanding Company Preferred Stock is then convertible in accordance with the Company Certificate of Incorporation, (C) the total number of shares of Company Common Stock which are issuable upon exercise of all outstanding Company Options, and (D) the total number of shares of Company Common Stock issuable upon exercise of all outstanding Company Warrants.

(ii) The term "Exchange Ratio" shall mean a fraction equal to (A) the Merger Shares divided by (B) the Company Outstanding Shares.

(iii) The term "Merger Shares" shall mean the total number of Parent Outstanding Shares multiplied by a fraction, the numerator of which is 45 and the denominator of which is 55; provided, however, that (I) in the event the average closing price of Parent's Common Stock as reported on the American Stock Exchange, Inc. ("AMEX") for the twenty (20) trading days (whether or not such stock is actually traded on any such day) ending the day immediately preceding the date of the Parent Shareholders' Meeting (the "Parent Closing Price") exceeds the closing price per share of Parent's Common Stock as reported on AMEX on the date this Agreement is executed (the "Signing Date Closing Price") by more than twenty percent (20%) of the Signing Date Closing Price, then the total Merger Shares shall equal $36,921,567 divided by the Parent Closing Price; (II) in the event the Parent Closing Price is less than the Signing Date Closing Price by an amount equal to more than twenty-nine percent (29%) of the Signing Date Closing Price, then the total Merger Shares shall equal $21,839,666 divided by the Parent Closing Price and (III) the total Merger Shares shall be reduced by 403,549 shares.

(iv) The term "Parent Outstanding Shares" shall mean, as of the close of business on the day immediately preceding the date of the Parent Shareholders' Meeting, the sum of (A) the total number of outstanding shares of Parent Common Stock, (B) the total number of shares of Parent Common Stock which are issuable upon exercise of all

outstanding Parent Options, and (C) the total number of shares of Parent Common Stock issuable upon exercise of all Outstanding Parent Warrants.

(c) If any shares of Company Common Stock outstanding immediately prior to the Effective Time are subject to vesting conditions, a repurchase option, risk of forfeiture or other condition under any applicable restricted stock purchase agreement or other agreement with the Company or under which the Company has any rights (as in effect immediately prior to the Effective Time), then the shares of Parent Common Stock issued in exchange for such shares of Company Common Stock will be subject to the same vesting conditions, repurchase option, risk of forfeiture or other terms and conditions in accordance with such applicable restricted stock purchase agreement or other agreement with the Company, and the certificates representing such shares of Parent Common Stock shall accordingly be marked with appropriate legends. The Company shall take all action that may be necessary to ensure that, from and after the Effective Time, Parent is entitled to exercise any such repurchase option or other right set forth in any such restricted stock purchase agreement or other agreement.

(d) No fractional shares of Parent Common Stock or Parent Preferred Stock shall be issued in connection with the Merger, and no certificates or scrip for any such fractional shares shall be issued. Any holder of Company Common Stock or Company Preferred Stock who would otherwise be entitled to receive a fraction of a share of Parent Common Stock or Parent Preferred Stock (after aggregating all fractional shares of Parent Common Stock or Parent Preferred Stock issuable to such holder, as applicable) shall, in lieu of such fraction of a share and upon surrender of such holder's Company Stock Certificate(s) (as defined in Section 1.8), be paid in cash the dollar amount (rounded to the nearest whole cent), without interest, determined by multiplying such fraction by the Parent Closing Price.

(e) All rights with respect to Company Common Stock under Company Options outstanding immediately prior to the Effective Time, if any, shall be converted into and become rights with respect to Parent Common Stock, and Parent shall assume each Company Option in accordance with the terms (as in effect immediately prior to the Effective Time) of the Company's 1993 Stock Plan, 1997 Equity Incentive Plan, 1998 Non-Officer Equity Incentive Plan and 1997 Non-Employee Directors' Stock Option Plan and the stock option agreements by which such options are evidenced, other than provisions contained in such plans and agreements which grant the plan administrator discretion with respect to the terms and provisions of such plans and agreements. From and after the Effective Time, (i) each Company Option assumed by Parent may be exercised solely for shares of Parent Common Stock, (ii) the number of shares of Parent Common Stock subject to each Company option shall be equal to the number of shares of Company Common Stock subject to such Company Option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounding to the nearest whole share, (iii) the per share exercise price under each such Company Option shall be adjusted by dividing the per share exercise price under each such Company Option by the Exchange Ratio and rounding to the nearest cent and (iv) the term, exercisability, vesting schedule and other provisions of such Company Option shall otherwise remain unchanged.

1.6 COMPANY WARRANTS. At the Effective Time, Parent shall assume each Company Warrant in accordance with the terms (as in effect as of the date hereof) of such Company Warrant (except to the extent that a holder of a Company Warrant has elected to

require the Company to repurchase such Common Warrant in accordance with its terms). From and after the Effective Time, (i) each Company Warrant assumed by Parent may be exercised solely for shares of Parent Common Stock, (ii) the number of shares of Parent Common Stock subject to each Company Warrant shall be equal to the number of shares of Company Common Stock subject to such Company Warrant immediately prior to the Effective Time multiplied by the Exchange Ratio, rounding to the nearest whole share, (iii) the per share exercise price under each such Company Warrant shall be equal to the per share exercise price under such Company Warrant divided by the Exchange Ratio, rounding to the nearest cent and (iv) any restriction on the exercise of any Company Warrant shall continue in full force and effect and the term, exercisability and other provisions of such Company Warrant shall otherwise remain unchanged. The Company shall take all action that may be necessary (under the Company Warrants and otherwise) to effectuate the provisions of this Section 1.6 and to ensure that, from and after the Effective Time, holders of Company Warrants have no rights with respect thereto other than those specifically provided herein.

1.7 EMPLOYEE STOCK PURCHASE PLAN. As of the Effective Time, the Company's 1997 Employee Stock Purchase Plan ("ESPP") shall be terminated. The rights of participants in the ESPP with respect to any offering period then underway under the ESPP shall be determined by treating the last business day prior to the Effective Time as the last day of such offering period and by making such other pro-rata adjustments as may be necessary to reflect the reduced offering period but otherwise treating such offering period as a fully effective and completed offering period for all purposes of such Plan. Prior to the Effective Time, the Company shall take all actions (including, if appropriate, amending the terms of the ESPP) that are necessary to give effect to the transactions contemplated by this Section 1.7.

1.8 CLOSING OF THE COMPANY'S TRANSFER BOOKS. At the Effective Time: (a) all shares of Company Common Stock and Company Preferred Stock outstanding immediately prior to the Effective Time shall automatically be canceled and retired and shall cease to exist, and all holders of certificates representing shares of Company Common Stock and Company Preferred Stock that were outstanding immediately prior to the Effective Time shall cease to have any rights as stockholders of the Company; and (b) the stock transfer books of the Company shall be closed with respect to all shares of Company Common Stock and Company Preferred Stock outstanding immediately prior to the Effective Time. No further transfer of any such shares of Company Common Stock or Company Preferred Stock shall be made on such stock transfer books after the Effective Time. If, after the Effective Time, a valid certificate previously representing any shares of Company Common Stock or Company Preferred Stock (a "Company Stock Certificate") is presented to the Exchange Agent (as defined in Section 1.9) or to the Surviving Corporation or Parent, such Company Stock Certificate shall be canceled and shall be exchanged as provided in Section 1.9.

1.9 EXCHANGE OF CERTIFICATES.

(a) American Securities Transfer & Trust, Inc. or such other reputable bank or trust company selected by Parent (and reasonably acceptable to the Company) prior to the Closing Date shall act as exchange agent in the Merger (the "Exchange Agent"). Promptly after the Effective Time, Parent shall deposit with the Exchange Agent (i) certificates representing the shares of Parent Common Stock issuable pursuant to this Section 1, (ii) the

certificates representing the shares of Parent Preferred Stock issuable pursuant to this Section 1, and (iii) cash sufficient to make payments in lieu of fractional shares in accordance with Section 1.5(d). The shares of Parent Common Stock and cash amounts so deposited with the Exchange Agent, together with any dividends or distributions received by the Exchange Agent with respect to such shares, are referred to collectively as the "Exchange Fund."

(b) As soon as reasonably practicable after the Effective Time, the Exchange Agent will mail to the record holders of Company Stock Certificates (i) a letter of transmittal in customary form and containing such provisions as Parent may reasonably specify (including a provision confirming that delivery of Company Stock Certificates shall be effected, and risk of loss and title to Company Stock Certificates shall pass, only upon delivery of such Company Stock Certificates to the Exchange Agent), and (ii) instructions for use in effecting the surrender of Company Stock Certificates in exchange for certificates representing Parent Common Stock or Parent Preferred Stock (as the case may be). Upon surrender of a Company Stock Certificate to the Exchange Agent for exchange, together with a duly executed letter of transmittal and such other documents as may be reasonably required by the Exchange Agent or Parent, (1) the holder of such Company Stock Certificate shall be entitled to receive in exchange therefor a certificate representing the number of whole shares of Parent Common Stock or Parent Preferred Stock that such holder has the right to receive pursuant to the provisions of Section 1.5 (and cash in lieu of any fractional share of Parent Common Stock or Parent Preferred Stock), and (2) the Company Stock Certificate so surrendered shall be canceled. Until surrendered as contemplated by this Section 1.9(b), each Company Stock Certificate shall be deemed, from and after the Effective Time, to represent only the right to receive shares of Parent Common Stock (and cash in lieu of any fractional share of Parent Common Stock) or Parent Preferred Stock (and cash in lieu of any fractional share of Parent Preferred Stock), as the case may be, as contemplated by Section 1. If any Company Stock Certificate shall have been lost, stolen or destroyed, Parent may, in its discretion and as a condition precedent to the issuance of any certificate representing Parent Common Stock or Parent Preferred Stock, require the owner of such lost, stolen or destroyed Company Stock Certificate to provide an appropriate affidavit and to deliver a bond (in such sum as Parent may reasonably direct) as indemnity against any claim that may be made against the Exchange Agent, Parent or the Surviving Corporation with respect to such Company Stock Certificate.

(c) No dividends or other distributions declared or made with respect to Parent Common Stock or Parent Preferred Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Company Stock Certificate with respect to the shares of Parent Common Stock or Parent Preferred Stock which such holder has the right to receive upon surrender thereof until such holder surrenders such Company Stock Certificate in accordance with this Section 1.9 (at which time such holder shall be entitled, subject to the effect of applicable escheat or similar laws, to receive all such dividends and distributions, without interest).

(d) Any portion of the Exchange Fund that remains undistributed to holders of Company Stock Certificates as of the date one year after the date on which the Merger becomes effective shall be delivered to Parent upon demand, and any holders of Company Stock Certificates who have not theretofore surrendered their Company Stock Certificates in accordance with this Section 1.9 shall thereafter look only to Parent for satisfaction of their

claims for Parent Common Stock or Parent Preferred Stock, cash in lieu of fractional shares of Parent Common or Parent Preferred Stock and any dividends or distributions with respect to Parent Common Stock or Parent Preferred Stock.

(e) Each of the Exchange Agent, Parent and the Surviving Corporation shall be entitled to deduct and withhold from any consideration payable or otherwise deliverable pursuant to this Agreement to any holder or former holder of Company Common Stock or Company Preferred Stock such amounts as may be required to be deducted or withheld therefrom under the Code or any provision of state, local or foreign tax law or under any other applicable Legal Requirement. To the extent such amounts are so deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

(f) Neither Parent nor the Surviving Corporation shall be liable to any holder or former holder of Company Common Stock or Company Preferred Stock or to any other Person with respect to any shares of Parent Common Stock or Parent Preferred Stock (or dividends or distributions with respect thereto), or for any cash amounts, delivered to any public official pursuant to any applicable abandoned property law, escheat law or similar Legal Requirement.

1.10 TAX CONSEQUENCES. For federal income tax purposes, the Merger is intended to constitute a reorganization within the meaning of Section 368 of the Code. The parties to this Agreement hereby adopt this Agreement as a "plan of reorganization" within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the United States Treasury Regulations.

1.11 ACCOUNTING CONSEQUENCES. For financial reporting purposes, the Merger is intended to be accounted for as a "purchase."

1.12 FURTHER ACTION. If, at any time after the Effective Time, any further action is determined by Parent to be necessary or desirable to carry out the purposes of this Agreement or to vest the Surviving Corporation with full right, title and possession of and to all rights and property of Merger Sub and the Company, the officers and directors of the Surviving Corporation and Parent shall be fully authorized (in the name of Merger Sub, in the name of the Company and otherwise) to take such action.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and Merger Sub, except as set forth in the Company Disclosure Schedule, as follows:

2.1 DUE ORGANIZATION; SUBSIDIARIES; ETC.

(a) The Company and each of its Subsidiaries ("Company Subsidiaries") is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. The Company and each Company Subsidiary has all necessary power and authority to: (i) conduct its business in the manner in which its business is currently being conducted; (ii) own and use its assets in the manner in which its assets are currently owned and used; and (iii) perform its obligations under all Contracts by which it is

bound. There are no Company Subsidiaries other than RiboGene AG. The Company does not own or hold directly or indirectly, any debt or equity securities of, or have any other interest in any Entity other than RiboGene AG and the Company has not entered into any contract or otherwise become obligated to acquire any such interest.

(b) The Company does not own directly or indirectly, through any Company Subsidiary or otherwise, any Parent Stock.

(c) The Company and each Company Subsidiary is qualified to do business as a foreign corporation, and is in good standing, under the laws of all jurisdictions where the nature of its business requires such qualification and where the failure to be so qualified would reasonably be expected to have a Material Adverse Effect on the Company.

(d) The Company owns all of the outstanding equity interests in RiboGene AG, a German company, which has been funded by the Company as set forth on Schedule 2.1(d). RiboGene AG has not begun any business operations.

2.2 CERTIFICATE OF INCORPORATION AND BYLAWS. Complete and accurate copies of the Company's Certificate of Incorporation, including any Certificate of Designation, and Bylaws (or comparable charter documents), each as amended to date, of the Company are filed as exhibits to the Company SEC Documents. The Company has delivered to Parent accurate and complete copies of the certificate of incorporation, bylaws and other charter and organizational documents of the Company and each Company Subsidiary, including all amendments thereto.

2.3 CAPITALIZATION, ETC.

(a) The authorized capital stock of the Company consists of: (i) 30,000,000 shares of Company Common Stock, $.001 par value per share, of which 5,788,642 shares have been issued and are outstanding as of the date of this Agreement; and (ii) 5,000,000 shares of Preferred Stock, $.001 par value per share, of which 1,428,572 shares have been issued and are outstanding. All of the outstanding shares of Company Common Stock and Company Preferred Stock have been duly authorized and validly issued, and are fully paid and nonassessable. Except as set forth in Schedule 2.3(a) of the Company Disclosure Schedule: (i) none of the outstanding shares of Company Common Stock or Company Preferred Stock is entitled or subject to any preemptive right, right of participation, right of maintenance or any similar right; (ii) none of the outstanding shares of Company Common Stock or Company Preferred Stock is subject to any right of first refusal in favor of the Company; and (iii) there is no Contract relating to the voting or registration of, or restricting any Person from purchasing, selling, pledging or otherwise disposing of (or granting any option or similar right with respect to), any shares of Company Common Stock or Company Preferred Stock. The Company is not under any obligation or bound by any Contract pursuant to which it may become obligated to repurchase, redeem or otherwise acquire any outstanding shares of Company Common Stock or Company Preferred Stock. The Company is the sole owner of each outstanding share of capital stock and/or other equity interests in each Company Subsidiary. The exercise prices of all of the Company Warrants exceed the Signing Date Closing Price.

(b) As of the date of this Agreement: 1,191,489 shares of Company Common Stock are subject to issuance pursuant to outstanding options to purchase shares of Company Common Stock. (Stock options granted by the Company pursuant to the Company's stock option plans and otherwise are referred to in this Agreement as "Company Options."). The Company has made available to Parent (A) accurate and complete copies of all stock option plans pursuant to which the Company has ever granted stock options, and the forms of all stock option agreements evidencing such options and (B) a list detailing (i) each Company Option outstanding as of the date of this Agreement; (ii) the particular plan (if any) pursuant to which such Company Option was granted; (iii) the name of the optionee; (iv) the number of shares of Company Common Stock subject to such Company Option; (v) the exercise price of such Company Option; (vi) the date on which such Company Option was granted; (vii) the applicable vesting schedules, and the extent to which such Company Option is vested and exercisable as of the date of this Agreement; and (vii) the date on which such Company Option expires. As of the date of this Agreement, 585,818 shares of Company Common Stock are reserved for future issuance pursuant to the Company's 1997 Employee Stock Purchase Plan (the "ESPP").

(c) Except as set forth in Schedule 2.3(c) of the Company Disclosure Schedule, there is no: (i) outstanding subscription, option (other than Company Options described under Section 2.3(b)), call, warrant or right (whether or not currently exercisable) to acquire any shares of the capital stock or other securities of the Company or any Company Subsidiary; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of the capital stock or other securities of the Company or any Company Subsidiary; (iii) stockholder rights plan (or similar plan commonly referred to as a "poison pill") or Contract under which the Company or any Company Subsidiary is or may become obligated to sell or otherwise issue any shares of its capital stock or any other securities; or (iv) to the best of the knowledge of the Company, condition or circumstance that may give rise to or provide a basis for the assertion of a claim by any Person to the effect that such Person is entitled to acquire or receive any shares of capital stock or other securities of the Company or any Company Subsidiary.

(d) All outstanding shares of Company Common Stock and all outstanding shares of Company Preferred Stock have been issued and granted in compliance with (i) all applicable securities laws and other applicable Legal Requirements, and (ii) all requirements set forth in applicable Contracts.

2.4 SEC FILINGS; FINANCIAL STATEMENTS; ACCOUNTING CONTROLS.

(a) The Company has delivered or made available (including through the SEC EDGAR system) to Parent accurate and complete copies of all registration statements, proxy statements and other statements, reports, schedules, forms and other documents filed by the Company with the SEC or AMEX since December 31, 1996, and all amendments thereto (the "Company SEC Documents"). All statements, reports, schedules, forms and other documents required to have been filed by the Company with the SEC or AMEX have been so filed and were prepared and timely filed and complied in all material respects with the applicable requirements of the Securities Act, the Exchange Act and all other applicable laws and regulations. As of the time it was filed with the SEC (or, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing): (i) each of the Company SEC Documents complied

in all material respects with the applicable requirements of the Securities Act or the Exchange Act (as the case may be); and (ii) none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements (including any related notes) contained in the Company SEC Documents: (i) complied as to form in all material respects with the published rules and regulations of the SEC applicable thereto; (ii) were prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods covered (except as may be indicated in the notes to such financial statements or, in the case of unaudited statements, as permitted by Form 10-Q of the SEC, and except that the unaudited financial statements may not contain footnotes and are subject to normal and recurring year-end adjustments which will not, individually or in the aggregate, be material in amount), and (iii) fairly present the consolidated financial position of the Company as of the respective dates thereof and the consolidated results of operations and cash flows of the Company and its subsidiaries for the periods covered thereby.

(c) The Company has delivered to Parent an unaudited consolidated balance sheet of the Company and its subsidiaries as of June 30, 1999 (the "Company Unaudited Interim Balance Sheet"), and the related unaudited consolidated statement of operations, statement of stockholders' equity and statement of cash flows of the Company and its subsidiaries for the six (6) months then ended. The financial statements referred to in this Section 2.4(c): (i) were prepared in accordance with generally accepted accounting principles applied on a basis consistent with the basis on which the financial statements referred to in Section 2.4(b) were prepared (except that such financial statements do not contain footnotes and are subject to normal and recurring year-end adjustments which will not, individually or in the aggregate, be material in amount), and (ii) fairly present the consolidated financial position of the Company and its subsidiaries as of June 30, 1999 and the consolidated results of operations and cash flows of the Company and its subsidiaries for the periods covered thereby.

(d) The Company and each Company Subsidiary maintains a system of accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

2.5 ABSENCE OF CERTAIN CHANGES OR EVENTS. Since June 30, 1999, there has not been (a) any change, or any development or combination of changes or developments that has had or would reasonably be expected to have a Material Adverse Effect on the Company, (b) any damage, destruction or loss of any of the assets of the Company, whether or not covered by insurance, that has had or would reasonably be expected to have a Material Adverse Effect on the Company, or (c) any transaction, commitment, dispute or other event or condition (financial or otherwise) of any character (whether or not in the ordinary course of business) which would

be prohibited by Section 4.2 if it were to occur or be effected between the date of this Agreement and the Effective Time.

2.6 TITLE TO ASSETS. The Company owns, and has good, valid and marketable title to, or, in the case of leased assets, valid leasehold interests in, all assets reflected on the Company Unaudited Interim Balance Sheet. All of said assets are owned or leased by the Company free and clear of any material Encumbrances, except for (1) any lien for current taxes not yet due and payable, (2) minor liens that have arisen in the ordinary course of business and that do not (in any case or in the aggregate) materially detract from the value of the assets subject thereto or materially impair the operations of the Company, and (3) liens described in Schedule 2.6 of the Company Disclosure Schedule.

2.7 PROPRIETARY ASSETS.

(a) The Company owns, licenses or otherwise possess legally enforceable rights to use and exploit all Proprietary Assets that are owned by or licensed to the Company or any Company Subsidiary or used in or necessary for the operation of the Company's or any Company Subsidiary's respective businesses as currently conducted (the "Company Proprietary Assets"), except to the extent that the failure to have such rights has not had, and would not reasonably be expected to have, a Material Adverse Effect on the Company.

(b) The Company has delivered to Parent a list of all patents and patent applications and all registered and unregistered trademarks, trade names, service marks and copyrights, and all applications with respect therefor, included in the Company Proprietary Assets, including the jurisdictions in which each such Company Proprietary Asset has been issued or registered or in which any application for such issuance and registration has been filed, and has made available to Parent all licenses, sublicenses and other agreements to which the Company is a party and pursuant to which any Person is authorized to use any Company Proprietary Asset, and all licenses, sublicenses and other agreements to which the Company is a party and pursuant to which it is authorized to use any Proprietary Asset held or used by a third party (other than "shrink wrap" licenses with respect to commercially available software programs costing less than $10,000) ("Third Party Proprietary Assets").

(c) To the Company's knowledge, there is no unauthorized use, disclosure, infringement or misappropriation of any Company Proprietary Asset, or any Third Party Proprietary Asset to the extent licensed by or through the Company by any third party, including any employee or former employee of the Company, except such as would not have a Material Adverse Effect on the Company. Neither the Company nor any Company Subsidiary has entered into any agreement to indemnify any other Person against any charge of infringement of any Company Proprietary Asset.

(d) Neither the Company nor any Company Subsidiary is, or will as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement be, in breach of any license, sublicense or other agreement relating to any Company Proprietary Asset or Third Party Proprietary Asset, except for such breaches that would not have a Material Adverse Effect on the Company.

(e) All patents, registered trademarks, registered service marks or copyright registrations owned by the Company or any Company Subsidiary are valid and subsisting. Except for actions which would not reasonably be expected to have a Material Adverse Effect on the Company, neither the Company nor any Company Subsidiary (i) is a party to any Legal Proceeding which involves a claim of infringement of any Third Party Proprietary Asset or (ii) has brought any Legal Proceeding for infringement of any Company Proprietary Asset or breach of any license or agreement involving a Company Proprietary Asset against any third party, which action is continuing. To the Company's knowledge, the manufacture, marketing, licensing or sale of any Company Proprietary Asset or products does not infringe any Third Party Proprietary Asset.

(f) The Company has secured agreements with all consultants and employees who prior to the date of this Agreement contributed to the creation or development of any Company Proprietary Asset regarding the rights to such contributions that the Company does not already own by operation of law in the form substantially identical to the form of Proprietary Information and Inventions Agreement previously made available to Parent.

(g) The Company has taken all reasonable and appropriate steps to protect and preserve the confidentiality of all Company Proprietary Assets not otherwise protected by patents, patent applications or copyrights ("Confidential Information"). All use, disclosure or appropriation of Confidential Information owned by the Company by or to any third party has been pursuant to the terms of a written agreement between the Company and such third party, and all use, disclosure or appropriation of Confidential Information not owned by the Company has been pursuant to the terms of a written agreement between the Company and the owner of such Confidential Information, or is otherwise lawful.

2.8 CONTRACTS.

(a) Except as identified as an exhibit to a Company SEC Document, neither the Company nor any Company Subsidiary is a party to, or bound by, any Material Company Contract. For purposes of this Agreement, a "Material Company Contract" shall be deemed to be any Contract filed or required to be filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 or as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, and any Contract:

(i) relating to the employment or engagement of, or the performance of services by, any employee, consultant or independent contractor in excess of $100,000 per year;

(ii) restricting in any manner the Company's or any Company Subsidiary's right or ability to (A) compete with any other Person, (B) acquire or transfer any product, technology or other asset from or to any other Person, or (C) develop or distribute any Company Proprietary Asset;

(iii) that (A) provides for the receipt or expenditure by the Company or any Company Subsidiary of cash or other consideration in excess of $100,000; (B) relates to the performance of services by or on behalf of the Company or any Company

Subsidiary having a value in excess of $100,000; (C) was entered into outside the ordinary course of business; or (D) is material and cannot be terminated by the Company without penalty with 30 days notice or less;

(iv) relating to the acquisition, issuance or transfer of any securities;

(v) creating or relating to the creation of any Encumbrance with respect to any of the Company Proprietary Assets or other assets having a value in excess of $100,000;

(vi) involving or incorporating any guaranty, pledge, performance, completion bond, indemnity or contribution or surety arrangement; or

(vii) creating or relating to any partnership, joint venture, research or development collaboration, license agreement, or any other Contract by which the Company or any Company Subsidiary is obligated or has the right to share any revenues, profits, losses, costs or Liabilities.

(b) Except as would not, individually or in the aggregate, have a Material Adverse Effect on the Company, all Material Company Contracts are in full force and effect and are enforceable against the Company and, to the Company's knowledge, are enforceable against the other parties thereto, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or by general equitable principles, and to the extent any indemnification or contribution provisions thereof may be limited by applicable federal or state securities laws. Neither the Company nor any Company Subsidiary has breached, or received in writing any claim or threat that it has breached, in any material respect, and no default has occurred under, any of the Material Company Contracts and, to the Company's knowledge, (i) none of the other contracting parties has violated or breached, and no default has occurred under any of the Material Company Contracts, and (ii) other than the transactions contemplated hereby, no event has occurred, and no circumstance or condition exists which with the giving of notice or the lapse of time, or both, will, or could reasonably be expected to, result in a violation, breach or default under any Material Company Contract or give any Person the right to cancel, terminate or modify any Material Company Contract. To the Company's knowledge, no party to a Material Company Contract currently in effect has given notice to the Company or any Company Subsidiary of intent to terminate such Material Company Contract in a way that would have a Material Adverse Effect on the Company. The Company has provided Parent or Parent's counsel with access to true and complete copies of each of the Material Company Contracts. Consummation of the transactions contemplated by this Agreement and each other agreement to be entered into by the Company in connection herewith will not (and will not give any Person a right to) cancel, terminate or modify any material rights of, or accelerate or increase any material obligation of, the Company under any Material Company Contract.

(c) The Company and each Company Subsidiary possess all material Governmental Authorizations which are required in order to operate their respective businesses as presently conducted, and the Company and each Company Subsidiary is in compliance in all material respects with all such Governmental Authorizations. Each such Governmental Authorization is identified in Schedule 2.8(c) of the Company Disclosure Schedule. Each such Governmental Authorization is valid and in full force and effect and will remain so until consummation of the transactions contemplated by this Agreement, except where the failure to comply would not have a Material Adverse Effect on the Company.

(d) Except as set forth in Schedule 2.8(d) of the Company Disclosure Schedule, there are no claims made or, to the Company's knowledge, threatened against the Company or any Company Subsidiary under each Material Company Contract presently or heretofore in effect to the extent such claims, individually or in the aggregate, have had or would reasonably be expected to have a Material Adverse Effect on the Company.

2.9 PERMITS; COMPLIANCE WITH LEGAL REQUIREMENTS. The Company and each Company Subsidiary holds all permits, licenses, vacancies, order and appeals which are material to the operation of the Company and the Company Subsidiaries. The Company and each Company Subsidiary is, and has at all times since January 1, 1997 been, in compliance with all applicable Legal Requirements, except where the failure to comply with such Legal Requirements has not had and would not reasonably be expected to have a Material Adverse Effect on the Company. Since January 1, 1997, neither the Company nor any Company Subsidiary has received any notice or other communication from any Governmental Body or other Person regarding any actual or possible violation of, or failure to comply with, any Legal Requirement.

2.10 CERTAIN BUSINESS PRACTICES. Neither the Company nor any Company Subsidiary nor (to the best of the knowledge of the Company) any director, officer, agent or employee of the Company or any Company Subsidiary has (i) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended, or (iii) made any other unlawful payment.

2.11 TAX MATTERS.

(a) Each Tax Return required to be filed by or on behalf of the Company and each Company Subsidiary with any Governmental Body with respect to any taxable period ending on or before the Closing Date (the "Company Returns") (i) has been or will be filed on or before the applicable due date, and (ii) has been, or will be when filed, prepared in all material respects in compliance with all applicable Legal Requirements. All amounts shown on the Company Returns to be due on or before the Closing Date have been or will be paid on or before the Closing Date.

(b) The Company Unaudited Interim Balance Sheet fully accrues all actual and contingent liabilities for Taxes with respect to all periods through December 31, 1998 in accordance with generally accepted accounting principles. The Company will establish, in the

ordinary course of business and consistent with its past practices, reserves adequate for the payment of all Taxes for the period from December 31, 1998 through the Closing Date, and will disclose the amount of such reserves to Parent no later than 10 business days prior to the Closing Date. Since December 31, 1998, the Company has not incurred any Liability for any Tax other than in the ordinary course of its business.

(c) No Company Return has ever been examined or audited by any Governmental Body. No extension or waiver of the limitation period applicable to any of the Company Returns has been granted (by the Company or any other Person), and no such extension or waiver has been requested from the Company.

(d) No claim or Legal Proceeding is pending or, to the best of the knowledge of the Company, has been threatened against or with respect to the Company in respect of any material Tax. There are no unsatisfied liabilities for material Taxes (including liabilities for interest, additions to tax and penalties thereon and related expenses) with respect to any notice of deficiency or similar document received by the Company with respect to any material Tax (other than liabilities for Taxes asserted under any such notice of deficiency or similar document which are being contested in good faith by the Company and with respect to which adequate reserves for payment have been established on the Company Unaudited Interim Balance Sheet). There are no liens for material Taxes upon any of the assets of the Company except liens for current Taxes not yet due and payable. The Company has not entered into or become bound by any agreement or consent pursuant to Section 341(f) of the Code (or any comparable provision of state or foreign Tax laws). The Company has not been and it will not be required to include any adjustment in taxable income for any tax period (or portion thereof) pursuant to Section 481 or 263A of the Code (or any comparable provision under state or foreign Tax laws) as a result of transactions or events occurring, or accounting methods employed, prior to the Closing.

(e) There is no agreement, plan, arrangement or other Contract covering any employee or independent contractor or former employee or independent contractor of the Company that, considered individually or considered collectively with any other such Contracts, will, or could reasonably be expected to, give rise directly or indirectly to the payment of any amount that would not be deductible pursuant to Section 280G or Section 162 of the Code (or any comparable provision under state or foreign Tax laws). The Company is not, nor has it ever been, a party to or bound by any tax indemnity agreement, tax sharing agreement, tax allocation agreement or similar Contract.

2.12 EMPLOYEE BENEFIT PLANS.

(a) Schedule 2.12(a) of the Company Disclosure Schedule identifies each bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance or termination pay, medical, life, disability or other insurance, supplemental unemployment benefits, profit-sharing, pension or retirement plan, program or agreement sponsored, maintained, contributed to or required to be contributed to by the Company and/or each Company Subsidiary for the benefit of any current or former employee, consultant, officer or director of the Company or any Company Subsidiary (other than those plans, programs and agreements disclosed in the Company SEC Documents).

(b) Except as set forth in Schedule 2.12(b) of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary maintains, sponsors or contributes to, nor has at any time in the past maintained, sponsored or contributed to, any employee pension benefit plan (as defined in Section 3(2) of ERISA, whether or not excluded from coverage under specific Titles or Subtitles of ERISA) for the benefit of employees or former employees of the Company or any Company Subsidiary. Except as set forth in Schedule 2.12(b) of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary maintains, sponsors or contributes to, nor has at any time in the past maintained, sponsored or contributed to, nor has any obligation or liability (whether accrued, contingent or otherwise) with respect to, any employee benefit plan (as defined in Section 3(3) of ERISA) or any other plan, policy, program, arrangement or agreement that is: (i) subject to Section 302 or Title IV of ERISA or Section 412 of the Code, (ii) a multi employer plan (as defined in Section 3(37) or 4001(a)(3) of ERISA), or (iii) provides welfare benefits to employees or former employees (or their dependents) of the Company or any Company Subsidiary following retirement or other termination of employment (except as required by Section 4980B of the Code or Title I, Subtitle B, Part 6 of ERISA).

(c) Each of the plans identified in Schedule 2.12(a) of the Company Disclosure Schedule intended to be qualified under Section 401(a) of the Code has received a favorable determination from the Internal Revenue Service, and the Company is not aware of any reason why any such determination letter should be revoked. Each of the plans, programs and agreements identified in Schedule 2.12(a) of the Company Disclosure Schedule has been maintained in compliance in all material respects with its terms and, both as to form and in operation, with the requirements prescribed by any and all applicable statutes, orders, rules and regulations, including without limitation, ERISA and the Code. The Company has delivered to Parent, with respect to each plan, program or agreement identified in Schedule 2.12(a) of the Company Disclosure Schedule, a copy of: (i) the document under which such plan, program or agreement is maintained and all amendments thereto (and all related funding instruments), (ii) the most recent determination letter issued by the Internal Revenue Service (if applicable) and (iii) the most recent Form 5500 filed with the Internal Revenue Service with respect to such plan, program or agreement (if applicable).

(d) Except as disclosed in Schedule 2.12(d) of the Company Disclosure Schedule or in the Company SEC Documents, neither the execution, delivery or performance of this Agreement, nor the consummation of the Merger or any of the other transactions contemplated by this Agreement, will result in any payment (including any bonus, golden parachute or severance payment) to any current or former employee or director of the Company (whether or not under any plan), or materially increase the benefits payable under any plan, or result in any acceleration of the time of payment or vesting of any such benefits.

(e) The Company and each Company Subsidiary is in compliance with all applicable Legal Requirements and Contracts relating to employment, employment practices, wages, bonuses and terms and conditions of employment, including employee compensation matters, except where the failure to be in compliance would not have a Material Adverse Effect on the Company.

2.13 INSURANCE. The Company has made available to Parent a copy of all material insurance policies and all material self insurance programs and arrangements relating to

the business, assets and operations of the Company and each Company Subsidiary. Each of such insurance policies is in full force and effect. Since January 1, 1997, the Company has not received any notice or other communication regarding any actual or possible (a) cancellation or invalidation of any insurance policy, (b) refusal of any coverage or rejection of any material claim under any insurance policy, or (c) material adjustment in the amount of the premiums payable with respect to any insurance policy. Except as set forth in Schedule 2.13 of the Company Disclosure Schedule, there is no pending workers' compensation or other claim under or based upon any insurance policy of the Company or any Company Subsidiary.

2.14 TRANSACTIONS WITH AFFILIATES. Except as set forth in the Company SEC Documents or as contemplated by this Agreement, since the date of the Company's last proxy statement filed with the SEC, no event has occurred that would be required to be reported by the Company pursuant to Item 404 of Regulation S-K promulgated by the SEC. Schedule 2.14 of the Company Disclosure Schedule identifies each person who is (or who may be deemed to be) an "affiliate" (as that term is used in Rule 145 under the Securities Act) of the Company as of the date of this Agreement.

2.15 LITIGATION. There is no Legal Proceeding pending or, to the Company's knowledge, threatened by or before any court or Governmental Authority that involves the Company or any Company Subsidiary or any of the assets owned or used by the Company or any Company Subsidiary. Neither the Company nor any Company Subsidiary is a party to any decree, order, writ, injunction, judgment or arbitration award (or agreement entered into in any Legal Proceeding) with respect to its properties, assets, personnel or business activities.

2.16 PROPERTIES. Schedule 2.16 of the Company Disclosure Schedule sets forth each lease of real and personal property to which the Company and each Company Subsidiary is a party (the "Company Leases"). The Company has previously made available to Parent complete and accurate copies of all the Company Leases. Each of the Company Leases is valid, binding and enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or by general equitable principles, and to the extent any indemnification or contribution provisions thereof may be limited by applicable federal or state securities laws. Neither the Company nor any Company Subsidiary has breached, nor received in writing any claim or threat that it has breached, in any material respect, and no default has occurred under any of the Company Leases and, to the Company's knowledge, (i) none of the other contracting parties has violated or breached, and no default has occurred under any of the Company Leases, and (ii) other than the transactions contemplated hereby, no event has occurred, and no circumstance or condition exists which with the giving of notice or the lapse of time, or both, will, or could reasonably be expected to, result in a violation, breach or default under any of the Company Leases or give any Person the right to cancel, terminate or modify any of the Company Leases. Neither the Company nor any Company Subsidiary owns any real property.

2.17 ENVIRONMENTAL MATTERS. To the knowledge of the Company, no current owner of any property leased or controlled by the Company or any Company Subsidiary has received any notice (in writing or otherwise), whether from a Governmental Body, citizens

group, employee or otherwise, that alleges that such current or prior owner or the Company or any Company Subsidiary is not in compliance with any Environmental Law. The Company has not received any notice or information that any property that is leased to, controlled by or used by the Company or any Company Subsidiary, or any surface water, groundwater and soil associated with or adjacent to such property, is not in clean and healthful condition or that it is not free of any material environmental contamination. For purposes of this Section 2.17: (i) "Environmental Law" means any federal, state, local or foreign Legal Requirement relating to pollution or protection of human health or the environment (including ambient air, surface water, ground water, land surface or subsurface strata), including any law or regulation relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern; and (ii) "Materials of Environmental Concern" include chemicals, pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products and any other substance that is now or hereafter regulated by any Environmental Law or that is otherwise a danger to health, reproduction or the environment.

2.18 COMPANY ACTION. The board of directors of the Company (at a meeting duly called and held) has (a) unanimously determined that the Merger is in the best interests of the Company and its stockholders, (b) unanimously approved this Agreement and the Merger in accordance with the provisions of Section 251 of the DGCL, (c) unanimously recommended the adoption and approval of this Agreement and the Merger by the stockholders of the Company and directed that the Merger be submitted for consideration by the Company's stockholders at the Company Stockholders' Meeting, (d) taken all necessary steps to render Section 203 of the DGCL inapplicable to the Merger and the other transactions contemplated by this Agreement and (e) adopted a resolution having the effect of causing the Company not to be subject, to the extent permitted by applicable law, to any state takeover law that may purport to be applicable to the Merger and the other transactions contemplated by this Agreement.

2.19 ENFORCEABILITY. The Company has all requisite corporate power and authority to execute, deliver and, subject to obtaining requisite stockholder approval, to perform its obligations under this Agreement and all other agreements, documents and instruments contemplated hereby to which it is or will become a party. The execution and delivery of this Agreement and the other agreements, documents and instruments contemplated hereby have been duly and validly authorized by the board of directors of the Company, and no other corporate proceedings on the part of the Company are necessary for the Company to authorize any of such agreements, documents or instruments and no such corporate proceedings (other than the approval of the Company Stockholders) are necessary to enable the Company to consummate the Merger or any of the other transactions contemplated by this Agreement. All agreements, documents and instruments to be executed in connection with the Merger (a) have been (or will be) duly executed and delivered by duly authorized officers of the Company and (b) constitute (or, when executed by the Company, will constitute) legal, valid and binding obligations of the Company enforceable against it in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or by general equitable principles, and to the extent any indemnification or contribution provisions thereof may be limited by applicable federal or state securities laws.

2.20 GOVERNMENTAL CONSENTS; NO CONFLICTS. Except as may be required by the Exchange Act, the Securities Act, state securities or blue sky laws, the DGCL, the NASD bylaws and the rules and regulations of AMEX (as they relate to the S-4 Registration Statement and the Prospectus/Joint Proxy Statement) (collectively, the "Applicable Regulatory Requirements"), there is no requirement applicable to the Company or any Company Subsidiary to make any filing with, or to obtain any permit, authorization, or Consent of, any Governmental Authority as a condition to the consummation of the Merger or any of the other transactions contemplated by this Agreement. Neither the execution and delivery of this Agreement and the other agreements, documents and instruments contemplated hereby by the Company nor the consummation by the Company of the Merger or any of the other transactions contemplated by this Agreement will (a) violate the Certificate of Incorporation or Bylaws of the Company, (b) result in a default (or with notice or lapse of time or both would result in a default) under, or materially impair the rights of the Company or any Company Subsidiary or materially alter the rights or obligations of any third party under, or require the Company or any Company Subsidiary to make any material payment or become subject to any material liability to any third party under, or give rise to any right of termination, amendment, cancellation, acceleration, repurchase, put or call under, any of the terms, conditions or provisions of any Material Company Contract, (c) result in the creation of any material (individually or in the aggregate) Encumbrance on any of the assets of the Company or any Company Subsidiary or (d) conflict with or violate any law, statute, rule, regulation, judgment, order, writ, injunction, decree or arbitration award applicable to the Company or any Company Subsidiary or any of their assets, which conflict or violation has had or would reasonably be expected to have a Material Adverse Effect on the Company.

2.21 YEAR 2000 PREPAREDNESS. There are no issues related to the Company's or any Company Subsidiary's preparedness for the Year 2000 (including, without limitation, any issues relating to the Company's or Company Subsidiary's internal computer systems and each Constituent Component of those systems and all computer related products and each Constituent Component of such products) that are of a character required to be described or referred to in the Company SEC Documents by the Securities Act or by the Exchange Act which have not been accurately described in the Company SEC Documents. "Constituent Component" means all software (including operating systems, programs, packages and utilities), firmware, hardware, networking components, and peripherals provided as part of the configuration. Except as otherwise disclosed in the Company SEC Documents, the Company has inquired of material vendors as to their preparedness for the Year 2000 and has disclosed in the Company Disclosure Schedule or Company SEC Documents any issues that might reasonably be expected to result in any Material Adverse Effect on the Company.

2.22 REGULATORY MATTERS.

(a) Except as disclosed on Schedule 2.22(a) of the Company Disclosure Schedule, the Company has obtained and is in compliance in all material respects with all certifications, approvals and clearances from the United States Food and Drug Administration (the "FDA") and all state, local and foreign equivalents (collectively, the "FDA, etc.") necessary in order to carry out its business and the businesses of each Company Subsidiary as currently conducted, including without limitation to develop pharmaceutical products in any

and all geographic areas in which the Company or any Company Subsidiary is currently, or has previously, developed pharmaceutical products.

(b) All nonclinical laboratory studies of pharmaceutical products have been and are being conducted in all material respects in compliance with all applicable federal, state, local and foreign laws, rules and regulations (including, without limitation, any reporting requirements thereof) and with accepted standards of good laboratory practice. All clinical trials of pharmaceutical products have been and are being conducted in all material respects in compliance with all applicable federal, state, local and foreign laws, rules and regulations (including, without limitation, any reporting requirements thereof) and with accepted standards of good clinical practice.

(c) Neither the Company nor any Company Subsidiary, nor any officer, employee or agent of the Company or any Company Subsidiary has made any untrue statement of a material fact or fraudulent statement to the FDA, etc. or failed to disclose a material fact required to be disclosed to the FDA, etc. The Company has provided Parent with copies of any and all notice of inspectional observations, establishment inspection reports and any other documents received from the FDA, etc. that indicate or suggest material lack of compliance with the regulatory requirements of the FDA, etc. The Company has made available to Parent for review all correspondence to or from the FDA, etc., minutes of meetings with the FDA, etc., written reports of phone conversations, visits or other contact with the FDA, etc., notices of inspectional observations, establishment inspection reports, and all other documents in its possession concerning communications to or from the FDA, etc., or prepared by the FDA, etc., which bear in any way on the Company's or its Subsidiaries' compliance with regulatory requirements of the FDA, etc. or on the likelihood of timing of approval of any pharmaceutical products.

2.23 CERTAIN COLLABORATION AGREEMENTS. The Company has not received any notice of nor is the Company aware that, since December 31, 1998, there has been any material adverse change or event with respect to any of the Company's or any Company Subsidiary's research programs, including with respect to either of the Company's collaboration arrangements with Dainippon Pharmaceutical Co., Ltd. ("Dainippon") and/or Roberts Pharmaceutical Co. ("Roberts") (together, the "Collaboration Agreements"). Each of the Collaboration Agreements is in full force and effect and the Company is not aware that either Dainippon or Roberts (or Shire Pharmaceuticals Group Plc as the prospective successor in interest to Roberts) intends to terminate its Collaboration Agreement with the Company within 12 months of the date of this Agreement and relations between the Company and such parties are good.

2.24 VOTE REQUIRED. The affirmative vote of the holders of a majority of the shares of Company Common Stock outstanding on the record date for the Company Stockholders' Meeting (the "Required Company Stockholder Vote") is the only vote of the holders of any class or series of the Company's capital stock necessary to approve and consummate this Agreement, the Merger and the other transactions contemplated by this Agreement.

2.25 FAIRNESS OPINION. The Company's board of directors has received the written opinion of Rabobank International, financial advisor to the Company, dated the date of

this Agreement, to the effect that the Exchange Ratio is fair to the stockholders of the Company from a financial point of view. The Company has furnished an accurate and complete copy of said written opinion to Parent.

2.26 FINANCIAL ADVISOR. Except for Rabobank International, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or any of the other transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company. The Company has furnished to Parent accurate and complete copies of all agreements under which any such fees, commissions or other amounts have been paid or may become payable and all indemnification and other agreements related to the engagement of Rabobank International.

2.27 VOTING AGREEMENTS; PREFERRED STOCK WAIVER. Each member of the board of directors and each executive officer of the Company has agreed on behalf of himself and his affiliates to vote in favor of the Merger at the Company Stockholders' Meeting and has executed and delivered to Parent a Voting Agreement substantially in the form attached hereto as Exhibit E-1. The holder of the Company Preferred Stock has, on behalf of itself and its affiliates, waived its right to receive a distribution pursuant to its liquidation preference in connection with the transactions contemplated under this Agreement and has executed and delivered to Parent a Waiver and Voting Agreement in substantially the form attached hereto as Exhibit E-2.

2.28 DISCLOSURE.

(a) The copies of all documents furnished by the Company pursuant to the terms of this Agreement are complete and accurate copies of the original, as such documents may have been amended to date.

(b) None of the representations and warranties of the Company contained in Section 2 of this Agreement or in any other Section of this Agreement or the information disclosed in the Company Disclosure Schedule contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(c) None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in the Form S-4 registration statement to be filed with the SEC by Parent in connection with the issuance of the Merger Shares (the "S-4 Registration Statement") will, at the time the S-4 Registration Statement is filed with the SEC or at the time the S-4 Registration Statement becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in the Prospectus/Joint Proxy Statement, will, at the time the Prospectus/Joint Proxy Statement is mailed to the stockholders of the Company or the shareholders of Parent, at the time of the Company Stockholders' Meeting or the Parent Shareholders' Meeting and as of the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order

to make the statements therein, in light of the circumstances under which they are made, not misleading. Notwithstanding the foregoing, no representation or warranty is made by the Company with respect to statements made about the Parent or Merger Sub or based on information supplied by Parent or Merger Sub or any of their representatives which is contained in the S-4 Registration Statement or the Prospectus/Joint Proxy Statement. The Prospectus/Joint Proxy Statement will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations promulgated by the SEC thereunder.

2.29 COMPANY RIGHTS PLAN. The execution, delivery and performance of this Agreement and the consummation of the Merger will not cause any change, effect or result under the Company Rights Plan which is adverse to the interests of Parent. Without limiting the generality of the foregoing, the Company has taken all necessary actions to (i) render the Company Rights Plan inapplicable to the Merger and the other transactions contemplated by this Agreement, including the Company Affiliate Agreements and/or the Voting Agreements, (ii) ensure that (y) neither Parent nor Merger Sub, nor any of their affiliates shall be deemed to have become an Acquiring Person or a Transaction Person (as such terms are defined in the Company Rights Plan) pursuant to the Company Rights Plan by virtue of the execution of this Agreement, the Company Affiliate Agreements and/or the Voting Agreements, the consummation of the Merger or the consummation of the other transactions contemplated hereby and (z) a Distribution Date, or a Transaction (as such terms are defined in the Company Rights Plan) or similar event does not occur by reason of the execution of this Agreement, the Company Affiliate Agreements and the Voting Agreements, the consummation of the Merger, or the consummation of the other transactions contemplated hereby and (iii) provide that the Final Expiration Date (as defined in the Company Rights Plan) shall be immediately prior to the Effective Time. The Company hereby covenants and agrees that it will take all necessary action to cause this representation to remain true.

3. REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub represent and warrant to the Company, except as set forth in the Parent Disclosure Schedule, as follows:

3.1 DUE ORGANIZATION; SUBSIDIARIES; ETC.

(a) Parent and each of its Subsidiaries ("Parent Subsidiaries") is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Parent and each Parent Subsidiary has all necessary power and authority to: (i) conduct its business in the manner in which its business is currently being conducted; (ii) own and use its assets in the manner in which its assets are currently owned and used; and (iii) perform its obligations under all Contracts by which it is bound. There are no Parent Subsidiaries other than Merger Sub. Parent does not own or hold directly or indirectly, any debt or equity securities of, or have any other interest in any Entity other than Merger Sub and Parent has not entered into any contract or otherwise become obligated to acquire any such interest.

(b) Parent does not own directly or indirectly, through any Parent Subsidiary or otherwise, any Company Stock.

(c) Parent and each Parent Subsidiary is qualified to do business as a foreign corporation, and is in good standing, under the laws of all jurisdictions where the nature of its business requires such qualification and where the failure to be so qualified would reasonably be expected to have a Material Adverse Effect on Parent.

3.2 ARTICLES OF INCORPORATION AND BYLAWS. Complete and accurate copies of the Parent's Restated Articles of Incorporation, including any Certificate of Designation, and Bylaws (or comparable charter documents), each as amended to date, of the Parent are filed as exhibits to the Parent SEC Documents. Parent has made available to the Company accurate and complete copies of the certificate of incorporation, bylaws and other charter and organizational documents of the Parent and each Parent Subsidiary, including all amendments thereto.

3.3 CAPITALIZATION, ETC.

(a) The authorized capital stock of the Parent consists of: (i) 30,000,000 shares of Parent Common Stock of no par value per share, of which 15,711,877 shares have been issued and are outstanding as of the date of this Agreement; and (ii) 1,000,000 shares of Preferred Stock, no par value per share, of which no shares are issued and outstanding. All of the outstanding shares of Parent Common Stock have been duly authorized and validly issued, and are fully paid and nonassessable. Except as set forth in Schedule 3.3(a) of the Parent Disclosure Schedule: (i) none of the outstanding shares of Parent Common Stock is entitled or subject to any preemptive right, right of participation, right of maintenance or any similar right; (ii) none of the outstanding shares of Parent Common Stock is subject to any right of first refusal in favor of the Parent; and (iii) there is no Contract relating to the voting or registration of, or restricting any Person from purchasing, selling, pledging or otherwise disposing of (or granting any option or similar right with respect to), any shares of Parent Common Stock or Parent Preferred Stock. Parent is not under any obligation or bound by any Contract pursuant to which it may become obligated, to repurchase, redeem or otherwise acquire any outstanding shares of Parent Common Stock. Parent is the sole owner of each outstanding share of capital stock and/or other equity interests in each Parent Subsidiary.

(b) As of the date of this Agreement, 2,268,686 shares of Parent Common Stock are subject to issuance pursuant to outstanding options to purchase shares of Parent Common Stock. (Stock options granted by Parent pursuant to Parent's stock option plans and otherwise are referred to in this Agreement as "Parent Options."). Parent has made available to the Company (A) accurate and complete copies of all stock option plans pursuant to which Parent has ever granted stock options, and the forms of all stock option agreements evidencing such options and (B) a list detailing (i) each Parent Option outstanding as of the date of this Agreement; (ii) the particular plan (if any) pursuant to which such Parent Option was granted; (iii) the name of the optionee; (iv) the number of shares of Parent Common Stock subject to such Parent Option; (v) the exercise price of such Parent Option; (vi) the date on which such Parent Option was granted; (vii) the applicable vesting schedules, and the extent to which such Parent Option is vested and exercisable as of the date of this Agreement; and (viii) the date on which such Parent Option expires..

(c) Except as set forth in Schedule 3.3(c) of the Parent Disclosure Schedule, there is no: (i) outstanding subscription, option (other than Parent Options described

under Section 3.3(b)), call, warrant or right (whether or not currently exercisable) to acquire any shares of the capital stock or other securities of Parent; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of the capital stock or other securities of Parent; (iii) shareholder rights plan (or similar plan commonly referred to as a "poison pill") or Contract under which Parent is or may become obligated to sell or otherwise issue any shares of its capital stock or any other securities; or (iv) to the best of the knowledge of Parent, condition or circumstance that may give rise to or provide a basis for the assertion of a claim by any Person to the effect that such Person is entitled to acquire or receive any shares of capital stock or other securities of Parent or any Parent Subsidiary.

(d) All outstanding shares of Parent Common Stock have been issued and granted in compliance with (i) all applicable securities laws and other applicable Legal Requirements, and (ii) all requirements set forth in applicable Contracts.

3.4 SEC FILINGS; FINANCIAL STATEMENTS; ACCOUNTING CONTROLS.

(a) Parent has delivered or made available (including through the SEC EDGAR system) to the Company accurate and complete copies of all registration statements, proxy statements and other statements, reports, schedules, forms and other documents filed by Parent with the SEC, Nasdaq or AMEX since December 31, 1996, and all amendments thereto (the "Parent SEC Documents"). All statements, reports, schedules, forms and other documents required to have been filed by Parent with the SEC, Nasdaq or AMEX have been so filed and were prepared and timely filed and complied in all material respects with the applicable requirements of the Securities Act, the Exchange Act and all other applicable laws and regulations. As of the time it was filed with the SEC (or, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing): (i) each of the Parent SEC Documents complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act (as the case may be); and (ii) none of the Parent SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements (including any related notes) contained in the Parent SEC Documents: (i) complied as to form in all material respects with the published rules and regulations of the SEC applicable thereto; (ii) were prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods covered (except as may be indicated in the notes to such financial statements or, in the case of unaudited statements, as permitted by Form 10-Q of the SEC, and except that the unaudited financial statements may not contain footnotes and are subject to normal and recurring year-end adjustments which will not, individually or in the aggregate, be material in amount), and (iii) fairly present the consolidated financial position of Parent as of the respective dates thereof and the consolidated results of operations and cash flows of Parent and its subsidiaries for the periods covered thereby.

(c) Parent has delivered to the Company an unaudited consolidated balance sheet of Parent and its subsidiaries as of April 30, 1999 (the "Parent Unaudited Interim Balance Sheet"), and the related unaudited consolidated statement of operations, statement of

shareholders' equity and statement of cash flows of Parent and its subsidiaries for the nine (9) months then ended. The financial statements referred to in this Section 3.4(c): (i) were prepared in accordance with generally accepted accounting principles applied on a basis consistent with the basis on which the financial statements referred to in Section 3.4(b) were prepared (except that such financial statements do not contain footnotes and are subject to normal and recurring year-end adjustments which will not, individually or in the aggregate, be material in amount), and (ii) fairly present the consolidated financial position of Parent and its subsidiaries as of April 30, 1999 and the consolidated results of operations and cash flows of Parent and its subsidiaries for the periods covered thereby.

(d) Parent and each Parent Subsidiary maintains a system of accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

3.5 ABSENCE OF CERTAIN CHANGES OR EVENTS. Since April 30, 1999, there has not been (a) any change, or any development or combination of changes or developments that has had or would reasonably be expected to have a Material Adverse Effect on Parent, (b) any damage, destruction or loss of any of the assets of Parent, whether or not covered by insurance, that has had or would reasonably be expected to have a Material Adverse Effect on Parent, or (c) any transaction, commitment, dispute or other event or condition (financial or otherwise) of any character (whether or not in the ordinary course of business) which would be prohibited by Section 4.5 if it were to occur or be effected between the date of this Agreement and the Effective Time.

3.6 TITLE TO ASSETS. Parent owns, and has good, valid and marketable title to, or, in the case of leased assets, valid leasehold interests in, all assets reflected on the Parent Unaudited Interim Balance Sheet. All of said assets are owned or leased by Parent free and clear of any material Encumbrances, except for (1) any lien for current taxes not yet due and payable, (2) minor liens that have arisen in the ordinary course of business and that do not (in any case or in the aggregate) materially detract from the value of the assets subject thereto or materially impair the operations of Parent, and (3) liens described in Schedule 3.6 of the Parent Disclosure Schedule.

3.7 PROPRIETARY ASSETS.

(a) Parent owns, licenses or otherwise possess legally enforceable rights to use and exploit all Proprietary Assets that are owned or licensed to Parent or any Parent Subsidiary or used in or necessary for the operation of Parent's or any Parent Subsidiary's respective businesses as currently conducted (the "Parent Proprietary Assets"), except to the extent that the failure to have such rights has not had, and would not reasonably be expected to have, a Material Adverse Effect on Parent.

(b) Parent has delivered to the Company a list of all patents and patent applications and all registered and unregistered trademarks, trade names, service marks and copyrights, and all applications with respect therefor, included in the Parent Proprietary Assets, including the jurisdictions in which each such Parent Proprietary Asset has been issued or registered or in which any application for such issuance and registration has been filed, and has made available to the Company all licenses, sublicenses and other agreements to which Parent is a party and pursuant to which any Person is authorized to use any Parent Proprietary Asset, and all licenses, sublicenses and other agreements to which Parent is a party and pursuant to which it is authorized to use any Third Party Proprietary Assets.

(c) To Parent's knowledge, there is no unauthorized use, disclosure, infringement or misappropriation of any Parent Proprietary Asset, or any Third Party Proprietary Asset to the extent licensed by or through Parent by any third party, including any employee or former employee of Parent, except such as would not have a Material Adverse Effect on Parent. Neither Parent nor any Parent Subsidiary has entered into any agreement to indemnify any other Person against any charge of infringement of any Parent Proprietary Asset.

(d) Neither Parent nor any Parent Subsidiary is, or will as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement be, in breach of any license, sublicense or other agreement relating to any Parent Proprietary Asset or Third Party Proprietary Asset, except for such breaches that would not have a Material Adverse Effect on Parent.

(e) All patents, registered trademarks, registered service marks or copyright registrations owned by Parent or any Parent Subsidiary are valid and subsisting. Except for actions which would not reasonably be expected to have a Material Adverse Effect on Parent, neither Parent nor any Parent Subsidiary (i) is a party to any Legal Proceeding which involves a claim of infringement of any Third Party Proprietary Asset or (ii) has brought any Legal Proceeding for infringement of any Parent Proprietary Asset or breach of any license or agreement involving a Parent Proprietary Asset against any third party, which action is continuing. To Parent's knowledge, the manufacture, marketing, licensing or sale of any Parent Proprietary Asset or products does not infringe any Third Party Proprietary Asset.

(f) Parent has secured agreements with all consultants and employees who prior to the date of this Agreement contributed to the creation or development of any Parent Proprietary Asset regarding the rights to such contributions that Parent does not already own by operation of law in the form substantially identical to the form of Proprietary Information and Inventions Agreement previously made available to the Company.

(g) Parent has taken all reasonable and appropriate steps to protect and preserve the confidentiality of all Parent Proprietary Assets not otherwise protected by patents, patent applications or copyrights ("Confidential Information"). All use, disclosure or appropriation of Confidential Information owned by Parent by or to any third party has been pursuant to the terms of a written agreement between Parent and such third party, and all use, disclosure or appropriation of Confidential Information not owned by Parent has been pursuant to the terms of a written agreement between Parent and the owner of such Confidential Information, or is otherwise lawful.

3.8 CONTRACTS.

(a) Except as identified as an exhibit to a Parent SEC Document, neither Parent nor any Parent Subsidiary is a party to, or bound by, any Material Parent Contract. For purposes of this Agreement, a "Material Parent Contract" shall be deemed to be any Contract filed or required to be filed as an exhibit to Parent's Annual Report on Form 10-K for the year ended July 31, 1998 or as an exhibit to Parent's Quarterly Reports on Form 10-Q for the quarters ended October 31, 1998, January 31, 1999 and April 30, 1999, and any Contract:

(i) relating to the employment or engagement of, or the performance of services by, any employee, consultant or independent contractor in excess of $100,000 per year;

(ii) restricting in any manner Parent's or any Parent Subsidiary's right or ability to (A) compete with any other Person, (B) acquire or transfer any product, technology or other asset from or to any other Person, or (C) develop or distribute any Parent Proprietary Asset;

(iii) that (A) provides for the receipt or expenditure by Parent or any Parent Subsidiary of cash or other consideration in excess of $100,000; (B) relates to the performance of services by or on behalf of Parent or any Parent Subsidiary having a value in excess of $100,000; (C) was entered into outside the ordinary course of business; or (D) is material and cannot be terminated by Parent without penalty with 30 days notice or less;

(iv) relating to the acquisition, issuance or transfer of any securities;

(v) creating or relating to the creation of any Encumbrance with respect to any of the Parent Proprietary Assets or other assets having a value in excess of $100,000;

(vi) involving or incorporating any guaranty, pledge, performance, completion bond, indemnity or contribution or surety arrangement; or

(vii) creating or relating to any partnership, joint venture, research or development collaboration, license agreement, or any other Contract by which Parent or any Parent Subsidiary is obligated or has the right to share any revenues, profits, losses, costs or Liabilities.

(b) Except as would not, individually or in the aggregate, have a Material Adverse Effect on Parent, all Material Parent Contracts are in full force and effect and are enforceable against Parent and, to Parent's knowledge, are enforceable against the other parties thereto, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or by general equitable principles, and to the extent any indemnification or contribution provisions thereof may be limited by applicable federal or state securities laws. Neither Parent nor any Parent Subsidiary has breached, or received in writing any claim or threat

that it has breached, in any material respect, and no default has occurred under, any of the Material Parent Contracts and, to Parent's knowledge, (i) none of the other contracting parties has violated or breached, and no default has occurred under any of the Material Parent Contracts, and (ii) other than the transactions contemplated hereby, no event has occurred, and no circumstance or condition exists which with the giving of notice or the lapse of time, or both, will, or could reasonably be expected to, result in a violation, breach or default under any Material Parent Contract or give any Person the right to cancel, terminate or modify any Material Parent Contract. To Parent's knowledge, no party to a Material Parent Contract currently in effect has given notice to Parent or any Parent Subsidiary of intent to terminate such Material Parent Contract in a way that would have a Material Adverse Effect on Parent. Parent has provided the Company or the Company's counsel with access to true and complete copies of each of the Material Parent Contracts. Consummation of the transactions contemplated by this Agreement and each other agreement to be entered into by Parent in connection herewith will not (and will not give any Person a right to) cancel, terminate or modify any material rights of, or accelerate or increase any material obligation of, Parent under any Material Parent Contract.

(c) Parent and each Parent Subsidiary possess all material Governmental Authorizations which are required in order to operate their respective businesses as presently conducted, and Parent and each Parent Subsidiary is in compliance in all material respects with all such Governmental Authorizations. Each such Governmental Authorization is identified in Schedule 3.8(c) of the Parent Disclosure Schedule. Each such Governmental Authorization is valid and in full force and effect and will remain so until consummation of the transactions contemplated by this Agreement, except where the failure to comply would not have a Material Adverse Effect on Parent.

(d) Except as set forth in Schedule 3.8(d) of the Parent Disclosure Schedule, there are no claims made or, to Parent's knowledge, threatened against Parent or any Parent Subsidiary under each Material Parent Contract presently or heretofore in effect to the extent such claims, individually or in the aggregate, have had or would reasonably be expected to have a Material Adverse Effect on Parent.

3.9 PERMITS; COMPLIANCE WITH LEGAL REQUIREMENTS. Parent and each Parent Subsidiary holds all permits, licenses, vacancies, order and appeals which are material to the operation of Parent and the Parent Subsidiaries. Parent and each Parent Subsidiary is, and has at all times since January 1, 1997 been, in compliance with all applicable Legal Requirements, except where the failure to comply with such Legal Requirements has not had and would not reasonably be expected to have a Material Adverse Effect on Parent. Since January 1, 1997, neither Parent nor any Parent Subsidiary has received any notice or other communication from any Governmental Body or other Person regarding any actual or possible violation of, or failure to comply with, any Legal Requirement.

3.10 CERTAIN BUSINESS PRACTICES. Neither Parent nor any Parent Subsidiary nor (to the best of the knowledge of Parent) any director, officer, agent or employee of Parent or any Parent Subsidiary has (i) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or

campaigns or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended, or (iii) made any other unlawful payment.

3.11 TAX MATTERS.

(a) Each Tax Return required to be filed by or on behalf of Parent and each Parent Subsidiary with any Governmental Body with respect to any taxable period ending on or before the Closing Date (the "Parent Returns") (i) has been or will be filed on or before the applicable due date, and (ii) has been, or will be when filed, prepared in all material respects in compliance with all applicable Legal Requirements. All amounts shown on the Parent Returns to be due on or before the Closing Date have been or will be paid on or before the Closing Date.

(b) The Parent Unaudited Interim Balance Sheet fully accrues all actual and contingent liabilities for Taxes with respect to all periods through December 31, 1998 in accordance with generally accepted accounting principles. Parent will establish, in the ordinary course of business and consistent with its past practices, reserves adequate for the payment of all Taxes for the period from December 31, 1998 through the Closing Date, and will disclose the amount of such reserves to the Company no later than 10 business days prior to the Closing Date. Since December 31, 1998, Parent has not incurred any Liability for any Tax other than in the ordinary course of its business.

(c) No Parent Return has ever been examined or audited by any Governmental Body. No extension or waiver of the limitation period applicable to any of the Parent Returns has been granted (by Parent or any other Person), and no such extension or waiver has been requested from Parent.

(d) No claim or Legal Proceeding is pending or, to the best of the knowledge of Parent, has been threatened against or with respect to Parent in respect of any material Tax. There are no unsatisfied liabilities for material Taxes (including liabilities for interest, additions to tax and penalties thereon and related expenses) with respect to any notice of deficiency or similar document received by Parent with respect to any material Tax (other than liabilities for Taxes asserted under any such notice of deficiency or similar document which are being contested in good faith by Parent and with respect to which adequate reserves for payment have been established on the Parent Unaudited Interim Balance Sheet). There are no liens for material Taxes upon any of the assets of Parent except liens for current Taxes not yet due and payable. Parent has not entered into or become bound by any agreement or consent pursuant to Section 341(f) of the Code (or any comparable provision of state or foreign Tax laws). Parent has not been and it will not be required to include any adjustment in taxable income for any tax period (or portion thereof) pursuant to Section 481 or 263A of the Code (or any comparable provision under state or foreign Tax laws) as a result of transactions or events occurring, or accounting methods employed, prior to the Closing.

(e) There is no agreement, plan, arrangement or other Contract covering any employee or independent contractor or former employee or independent contractor of Parent that, considered individually or considered collectively with any other such Contracts, will, or could reasonably be expected to, give rise directly or indirectly to the payment of any amount that would not be deductible pursuant to Section 280G or Section 162 of the Code (or

any comparable provision under state or foreign Tax laws). Parent is not, nor has it ever been, a party to or bound by any tax indemnity agreement, tax sharing agreement, tax allocation agreement or similar Contract.

3.12 EMPLOYEE BENEFIT PLANS.

(a) Schedule 3.12(a) of the Parent Disclosure Schedule identifies each bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance or termination pay, medical, life, disability or other insurance, supplemental unemployment benefits, profit-sharing, pension or retirement plan, program or agreement sponsored, maintained, contributed to or required to be contributed to by Parent and/or each Parent Subsidiary for the benefit of any current or former employee, consultant, officer or director of Parent or any Parent Subsidiary (other than those plans, programs and agreements disclosed in the Parent SEC Documents).

(b) Except as set forth in Schedule 3.12(b) of the Parent Disclosure Schedule, neither Parent nor any Parent Subsidiary maintains, sponsors or contributes to, nor has at any time in the past maintained, sponsored or contributed to, any employee pension benefit plan (as defined in Section 3(2) of ERISA, whether or not excluded from coverage under specific Titles or Subtitles of ERISA) for the benefit of employees or former employees of Parent or any Parent Subsidiary. Except as set forth in Schedule 3.12(b) of the Parent Disclosure Schedule, neither Parent nor any Parent Subsidiary maintains, sponsors or contributes to, nor has at any time in the past maintained, sponsored or contributed to, nor has any obligation or liability (whether accrued, contingent or otherwise) with respect to, any employee benefit plan (as defined in Schedule 3(3) of ERISA) or any other plan, policy, program, arrangement or agreement that is: (i) subject to Section 302 or Title IV of ERISA or Section 412 of the Code, (ii) a multi employer plan (as defined in Section 3(37) or 4001(a)(3) of ERISA), or (iii) provides welfare benefits to employees or former employees (or their dependents) of Parent or any Parent Subsidiary following retirement or other termination of employment (except as required by Section 4980B of the Code or Title I, Subtitle B, Part 6 of ERISA).

(c) Each of the plans identified in Schedule 3.12(a) of the Parent Disclosure Schedule intended to be qualified under Section 401(a) of the Code has received a favorable determination from the Internal Revenue Service, and Parent is not aware of any reason why any such determination letter should be revoked. Each of the plans, programs and agreements identified in Schedule 3.12(a) of the Parent Disclosure Schedule has been maintained in compliance in all material respects with its terms and, both as to form and in operation, with the requirements prescribed by any and all applicable statutes, orders, rules and regulations, including without limitation, ERISA and the Code. Parent has delivered to the Company with respect to each plan, program or agreement identified in Schedule 3.12(a) of the Parent Disclosure Schedule, a copy of: (i) the document under which such plan, program or agreement is maintained and all amendments thereto (and all related funding instruments), (ii) the most recent determination letter issued by the Internal Revenue Service (if applicable) and (iii) the most recent Form 5500 filed with respect to such plan, program or agreement (if applicable).

(d) Except as disclosed in Schedule 3.12(d) of the Parent Disclosure Schedule or in the Parent SEC Documents, neither the execution, delivery or performance of this

Agreement, nor the consummation of the Merger or any of the other transactions contemplated by this Agreement, will result in any payment (including any bonus, golden parachute or severance payment) to any current or former employee or director of Parent (whether or not under any plan), or materially increase the benefits payable under any plan, or result in any acceleration of the time of payment or vesting of any such benefits.

(e) Parent and each Parent Subsidiary is in compliance with all applicable Legal Requirements and Contracts relating to employment, employment practices, wages, bonuses and terms and conditions of employment, including employee compensation matters, except where the failure to be in compliance would not have a Material Adverse Effect on Parent.

3.13 INSURANCE. Parent has made available to the Company a copy of all material insurance policies and all material self insurance programs and arrangements relating to the business, assets and operations of Parent and each Parent Subsidiary. Each of such insurance policies is in full force and effect. Since January 1, 1997, Parent has not received any notice or other communication regarding any actual or possible (a) cancellation or invalidation of any insurance policy, (b) refusal of any coverage or rejection of any material claim under any insurance policy, or (c) material adjustment in the amount of the premiums payable with respect to any insurance policy. Except as set forth in Schedule 3.13 of the Parent Disclosure Schedule, there is no pending workers' compensation or other claim under or based upon any insurance policy of Parent or any Parent Subsidiary.

3.14 TRANSACTIONS WITH AFFILIATES. Except as set forth in Schedule 3.14 of the Parent Disclosure Schedule or the Parent SEC Documents or as contemplated by this Agreement, since the date of Parent's last proxy statement filed with the SEC, no event has occurred that would be required to be reported by Parent pursuant to Item 404 of Regulation S-K promulgated by the SEC. Schedule 3.14 of the Parent Disclosure Schedule identifies each person who is (or who may be deemed to be) an "affiliate" (as that term is used in Rule 145 under the Securities Act) of Parent as of the date of this Agreement.

3.15 LITIGATION. Except as disclosed in Parent SEC Documents, there is no Legal Proceeding pending or, to Parent's knowledge, threatened by or before any court or Governmental Authority that involves Parent or any Parent Subsidiary or any of the assets owned or used by Parent or any Parent Subsidiary. Neither Parent nor any Parent Subsidiary is a party to any decree, order, writ, injunction, judgment or arbitration award (or agreement entered into in any Legal Proceeding) with respect to its properties, assets, personnel or business activities.

3.16 PROPERTIES. Schedule 3.16 of the Parent Disclosure Schedule sets forth each lease of real and personal property to which Parent and each Parent Subsidiary is a party (the "Parent Leases"). Parent has previously made available to the Company complete and accurate copies of all the Parent Leases. Each of the Parent Leases is valid, binding and enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or by general equitable principles, and to the extent any indemnification or contribution provisions thereof may be limited by applicable federal or

state securities laws. Neither Parent nor any Parent Subsidiary has breached, nor received in writing any claim or threat that it has breached, in any material respect, and no default has occurred under any of the Parent Leases and, to Parent's knowledge, (i) none of the other contracting parties has violated or breached, and no default has occurred under any of the Parent Leases, and (ii) other than the transactions contemplated hereby, no event has occurred, and no circumstance or condition exists which with the giving of notice or the lapse of time, or both, will, or could reasonably be expected to, result in a violation, breach or default under any of the Parent Leases or give any Person the right to cancel, terminate or modify any of the Parent Leases. Neither Parent nor any Parent Subsidiary owns any real property.

3.17 ENVIRONMENTAL MATTERS. To the knowledge of Parent, no current owner of any property leased or controlled by the Parent or any Parent Subsidiary has received any notice (in writing or otherwise), whether from a Governmental Body, citizens group, employee or otherwise, that alleges that such current or prior owner or Parent or any Parent Subsidiary is not in compliance with any Environmental Law. Parent has not received any notice or information that any property that is leased to, controlled by or used by Parent or any Parent Subsidiary, or any surface water, groundwater and soil associated with or adjacent to such property, is not in clean and healthful condition or that it is not free of any material environmental contamination. For purposes of this Section 3.17: (i) "Environmental Law" means any federal, state, local or foreign Legal Requirement relating to pollution or protection of human health or the environment (including ambient air, surface water, ground water, land surface or subsurface strata), including any law or regulation relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern; and (ii) "Materials of Environmental Concern" include chemicals, pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products and any other substance that is now or hereafter regulated by any Environmental Law or that is otherwise a danger to health, reproduction or the environment.

3.18 PARENT ACTION. The board of directors of Parent (at a meeting duly called and held) has (a) unanimously determined that the Merger is in the best interests of Parent and its shareholders, (b) unanimously approved this Agreement and the Merger in accordance with the provisions of Section 1200 of the CCC, (c) unanimously recommended the adoption and approval of this Agreement and the Merger by the shareholders of Parent and directed that the Merger be submitted for consideration by Parent's shareholders at the Parent Shareholders' Meeting, and (d) adopted a resolution having the effect of causing Parent not to be subject, to the extent permitted by applicable law, to any state takeover law that may purport to be applicable to the Merger and the other transactions contemplated by this Agreement.

3.19 ENFORCEABILITY. Parent has all requisite corporate power and authority to execute, deliver and, subject to obtaining requisite shareholder approval, to perform its obligations under this Agreement and all other agreements, documents and instruments contemplated hereby to which it is or will become a party. The execution and delivery of this Agreement and the other agreements, documents and instruments contemplated hereby have been duly and validly authorized by the board of directors of Parent, and no other corporate proceedings on the part of Parent are necessary for Parent to authorize any of such agreements, documents or instruments and no such corporate proceedings (other than the approval of the

Parent Shareholders) are necessary to enable Parent to consummate the Merger or any of the other transactions contemplated by this Agreement. All agreements, documents and instruments to be executed in connection with the Merger (a) have been (or will be) duly executed and delivered by duly authorized officers of Parent and (b) constitute (or, when executed by Parent, will constitute) legal, valid and binding obligations of Parent enforceable against it in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief, or by general equitable principles, and to the extent any indemnification or contribution provisions thereof may be limited by applicable federal or state securities laws.

3.20 GOVERNMENTAL CONSENTS; NO CONFLICTS. Except as may be required under the Applicable Regulatory Requirements, there is no requirement applicable to Parent or any Parent Subsidiary to make any filing with, or to obtain any permit, authorization, or Consent of, any Governmental Authority as a condition to the consummation of the Merger or any of the other transactions contemplated by this Agreement. Neither the execution and delivery of this Agreement and the other agreements, documents and instruments contemplated hereby by Parent nor the consummation by Parent of the Merger or any of the other transactions contemplated by this Agreement will (a) violate the Articles of Incorporation or Bylaws of Parent, (b) result in a default (or with notice or lapse of time or both would result in a default) under, or materially impair the rights of Parent or any Parent Subsidiary or materially alter the rights or obligations of any third party under, or require Parent or any Parent Subsidiary to make any material payment or become subject to any material liability to any third party under, or give rise to any right of termination, amendment, cancellation, acceleration, repurchase, put or call under, any of the terms, conditions or provisions of any Material Parent Contract, (c) result in the creation of any material (individually or in the aggregate) Encumbrance on any of the assets of Parent or any Parent Subsidiary or (d) conflict with or violate any law, statute, rule, regulation, judgment, order, writ, injunction, decree or arbitration award applicable to Parent or any Parent Subsidiary or any of their assets, which conflict or violation has had or would reasonably be expected to have a Material Adverse Effect on Parent.

3.21 YEAR 2000 PREPAREDNESS. There are no issues related to Parent's or any Parent Subsidiary's preparedness for the Year 2000 (including, without limitation, any issues relating to Parent's or Parent Subsidiary's internal computer systems and each Constituent Component of those systems and all computer related products and each Constituent Component of such products) that are of a character required to be described or referred to in the Parent SEC Documents by the Securities Act or by the Exchange Act which have not been accurately described in the Parent SEC Documents. Except as otherwise disclosed in the Parent SEC Documents, Parent has inquired of material vendors as to their preparedness for the Year 2000 and has disclosed in the Parent Disclosure Schedule or Parent SEC Documents any issues that might reasonably be expected to result in any Material Adverse Effect on Parent.

3.22 REGULATORY MATTERS.

(a) Except as disclosed on Schedule 3.22(a) of the Parent Disclosure Schedule, Parent has obtained and is in compliance in all material respects with all certifications, approvals and clearances from the FDA, etc. necessary in order to carry out its business and the

businesses of each Parent Subsidiary as currently conducted, including without limitation developing pharmaceutical products in any and all geographic areas in which Parent or any Parent Subsidiary is currently, or have previously, developed pharmaceutical products.

(b) All nonclinical laboratory studies of pharmaceutical products have been and are being conducted in all material respects in compliance with all applicable federal, state, local and foreign laws, rules and regulations (including, without limitation, any reporting requirements thereof) and with accepted standards of good laboratory practice. All clinical trials of pharmaceutical products have been and are being conducted in all material respects in compliance with all applicable federal, state, local and foreign laws, rules and regulations (including, without limitation, any reporting requirements thereof) and with accepted standards of good clinical practice.

(c) Neither Parent nor any Parent Subsidiary nor any officer, employee or agent of Parent or any Parent Subsidiary has made any untrue statement of a material fact or fraudulent statement to the FDA, etc. or failed to disclose a material fact required to be disclosed to the FDA, etc. Parent has provided the Company with copies of any and all notice of inspectional observations, establishment inspection reports and any other documents received from the FDA, etc. that indicate or suggest material lack of compliance with the regulatory requirements of the FDA, etc. Parent has made available to the Company for review all correspondence to or from the FDA, etc., minutes of meetings with the FDA, etc., written reports of phone conversations, visits or other contact with the FDA, etc., notices of inspectional observations, establishment inspection reports, and all other documents in its possession concerning communications to or from the FDA, etc., or prepared by the FDA, etc., which bear in any way on Parent's or any Parent Subsidiary's compliance with regulatory requirements of the FDA, etc. or on the likelihood of timing of approval of any pharmaceutical product.

3.23 VOTE REQUIRED. The affirmative vote of the holders of a majority of the shares of Parent Common Stock outstanding on the record date for the Parent Shareholders' Meeting (the "Required Parent Shareholder Vote") is the only vote of the holders of any class or series of Parent's capital stock necessary to approve and consummate this Agreement, the Merger and the other transactions contemplated by this Agreement.

3.24 FAIRNESS OPINION. Parent's board of directors has received the written opinion of EVEREN Securities, Inc., financial advisor to Parent, dated the date of this Agreement, to the effect that the Merger is fair to the shareholders of Parent from a financial point of view. Parent has furnished an accurate and complete copy of said written opinion to the Company.

3.25 FINANCIAL ADVISOR. Except for EVEREN Securities, Inc., no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or any of the other transactions contemplated by this Agreement based upon arrangements made by or on behalf of Parent. Parent has furnished to the Company accurate and complete copies of all agreements under which any such fees, commissions or other amounts have been paid or may become payable and all indemnification and other agreements related to the engagement of EVEREN Securities, Inc.

3.26 VOTING AGREEMENTS. Each member of the board of directors and each executive officer of Parent has agreed on behalf of himself and his affiliates to vote in favor of the Merger at the Parent Shareholders' Meeting and has executed and delivered to the Company a Voting Agreement substantially in the form attached hereto as Exhibit E-3.

3.27 DISCLOSURE.

(a) The copies of all documents furnished by Parent pursuant to the terms of this Agreement are complete and accurate copies of the original, as such documents may have been amended to date.

(b) None of the representations and warranties of Parent contained in Section 3 of this Agreement or in any other Section of this Agreement or the information disclosed in the Parent Disclosure Schedule contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(c) None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Form S-4 registration statement to be filed with the SEC by the Company in connection with the issuance of the Merger Shares (the "S-4 Registration Statement") will, at the time the S-4 Registration Statement is filed with the SEC or at the time the S-4 Registration Statement becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Prospectus/Joint Proxy Statement, will, at the time the Prospectus/Joint Proxy Statement is mailed to the shareholders of Parent or the stockholders of the Company, at the time of the Parent Shareholders' Meeting or the Company Shareholders' Meeting and as of the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. Notwithstanding the foregoing, no representation or warranty is made by Parent with respect to statements made about the Company or Merger Sub or based on information supplied by the Company or Merger Sub or any of their representatives which is contained in the S-4 Registration Statement or the Prospectus/Joint Proxy Statement. The Prospectus/Joint Proxy Statement will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations promulgated by the SEC thereunder.

3.28 INTERIM OPERATIONS OF MERGER SUB. Merger Sub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement, has engaged in no other business activities and has conducted its operations only as contemplated by this Agreement.

4. CERTAIN COVENANTS OF PARENT, MERGER SUB AND THE COMPANY

4.1 COMPANY ACCESS AND INVESTIGATION. During the period from the date of this Agreement through the Effective Time (the "Pre-Closing Period"), the Company shall, and

shall cause the respective Representatives of the Company to: (a) provide Parent and Parent's Representatives with reasonable access to the Company's Representatives, personnel and assets and to all existing books, records, Tax Returns, work papers and other documents and information relating to the Company; and (b) provide Parent and Parent's Representatives with such copies of the existing books, records, Tax Returns, work papers and other documents and information relating to the Company, and with such additional financial, operating and other data and information regarding the Company, as Parent may reasonably request. Without limiting the generality of the foregoing, during the Pre-Closing Period, the Company shall promptly provide Parent with copies of:

(i) all material operating and financial reports prepared by the Company and each Company Subsidiary for the Company's senior management, including (A) copies of the unaudited monthly consolidated balance sheets of the Company and the related unaudited monthly consolidated statements of operations, statements of stockholders' equity and statements of cash flows and (B) copies of any sales forecasts, marketing plans, development plans, discount reports, write-off reports, hiring reports and capital expenditure reports prepared for the Company's senior management;

(ii) any written materials or communications sent by or on behalf of the Company to its stockholders;

(iii) any material notice, document or other communication sent by or on behalf of the Company or any Company Subsidiary to any party to any Company Contract or sent to the Company or any Company Subsidiary by any party to any Company Contract (other than any communication that relates solely to routine commercial transactions between the Company and the other party to any such Company Contract and that is of the type sent in the ordinary course of business and consistent with past practices); and

(iv) any notice, report or other document received by the Company or any Company Subsidiary from, or filed with or sent by the Company or any Company Subsidiary to any Governmental Body.

4.2 OPERATION OF THE COMPANY'S BUSINESS.

(a) During the Pre-Closing Period: (i) the Company shall ensure that the Company and each Company Subsidiary conducts its business and operations (A) in the ordinary course and in accordance with past practices and (B) in compliance with all applicable Legal Requirements and the requirements of all Company Contracts that constitute Material Company Contracts; (ii) the Company shall use all reasonable efforts to ensure that the Company and each Company Subsidiary preserves intact its current business organization, keeps available the services of its current officers and other employees and maintains its relations and goodwill with all suppliers, customers, landlords, creditors, licensors, licensees, employees, consultants and other Persons having business relationships with the Company or a Company Subsidiary; (iii) the Company shall keep in full force all insurance policies referred to in Section 2.13; and (iv) the Company shall (to the extent requested by Parent) cause its officers and the officers of each Company Subsidiary to report regularly to Parent concerning the status of the Company's and each Company Subsidiary's business.

(b) During the Pre-Closing Period, the Company shall not, except as set forth on Schedule 4.2(b), (without the prior written consent of Parent), and shall not permit any Company Subsidiary to:

(i) declare, accrue, set aside or pay any dividend or make any other distribution in respect of any shares of capital stock, or repurchase, redeem or otherwise reacquire any shares of capital stock or other securities (except for any repurchase of Company Warrants in accordance with their existing terms);

(ii) sell, issue, grant or authorize the issuance or grant of (A) any capital stock or other security, (B) any option, call, warrant or right to acquire any capital stock or other security, or (C) any instrument convertible into or exchangeable for any capital stock or other security (except that the Company may issue shares and grant options to purchase shares of Company Common Stock under stock option plans approved by its board of directors and stockholders totaling up to 100,000 shares and issue shares of Company Common Stock (w) upon the valid exercise of Company Options outstanding as of the date of this Agreement or such additional options, (x) pursuant to the ESPP, (y) upon the exercise of Company Warrants outstanding as of the date of this Agreement and (z) upon the conversion of Company Preferred Stock outstanding as of the date of this Agreement);

(iii) amend or waive any of its rights under, or accelerate the vesting under, any provision of any of the Company's stock option plans, any provision of any agreement evidencing any outstanding stock option or any restricted stock purchase agreement, other than pursuant to agreements in existence on the date hereof, copies of which have been provided to the other parties hereto, or otherwise modify any of the terms of any outstanding option, warrant or other security or any related Contract;

(iv) amend or permit the adoption of any amendment to its certificate of incorporation or bylaws or other charter or organizational documents, adopt any shareholder rights plan ("poison pill") or effect or become a party to any merger, consolidation, amalgamation, share exchange, business combination, recapitalization, reclassification of shares, stock split, division or subdivision of shares, reverse stock split, consolidation of shares or similar transaction;

(v) form any Subsidiary or acquire any equity interest or other interest in any other Entity or any other business;

(vi) make any capital expenditure in excess of $100,000;

(vii) enter into or become bound by, or permit any of the assets owned or used by it to become bound by, any Company Collaboration Agreement or any Material Company Contract, or amend or terminate, or waive or exercise any Company Collaboration Agreement or any material right or remedy under, any Material Company Contract, other than in the ordinary course of business consistent with past practices;

(VIII) acquire, lease or license any right or other asset from any other Person or sell or otherwise dispose of, or lease or license, any right or other asset to any other Person (except in each case for immaterial assets (other than Company Proprietary Assets)

acquired, leased, licensed or disposed of by the Company in the ordinary course of business and consistent with past practices), or waive or relinquish any material right;

(ix) lend money to any Person, or incur or guarantee any indebtedness;

(x) establish, adopt or amend any employee benefit plan, pay any bonus or make any profit-sharing or similar payment to, or increase the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of its directors, officers or employees;

(xi) prepay any material claim, Liability or obligation, or pay, discharge or satisfy any material unliquidated or contingent Liability;

(xii) enter into or amend any employment agreement, severance agreement, special pay arrangement with respect to termination of employment or other similar arrangement or agreement with any director, officer or employee of the Company,

(XIII) make or fail to make any material election concerning the term, scope or termination of any real property lease, or waive any material provision of any such lease or enter into any new real property lease;

(xiv) engage in any transaction with any stockholder, director, officer or employee other than in the ordinary course of business consistent with past practice;

(xv) make any Tax election;

(xvi) commence or settle any Legal Proceeding;

(XVII) enter into any material transaction or take any other material action outside the ordinary course of business or inconsistent with past practices; or

(XVIII) agree or commit to take any of the actions described in clauses "(i)" through "(xviii)" of this Section 4.2(b).

(c) During the Pre-Closing Period, the Company shall promptly notify Parent in writing of: (i) the discovery by the Company of any event, condition, fact or circumstance that occurred or existed on or prior to the date of this Agreement and that caused or constitutes a material inaccuracy in any representation or warranty made by the Company in this Agreement; (ii) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute a material inaccuracy in any representation or warranty made by the Company in this Agreement if (A) such representation or warranty had been made as of the time of the occurrence, existence or discovery of such event, condition, fact or circumstance, or (B) such event, condition, fact or circumstance had occurred, arisen or existed on or prior to the date of this Agreement; (iii) any material breach of any covenant or obligation of the Company; and (iv) any event, condition, fact or circumstance that would make the timely satisfaction of any of the conditions set forth in Section 6 or Section 7 impossible or unlikely or that has had or could reasonably be expected to have a Material

Adverse Effect on the Company or any Company Subsidiary. Without limiting the generality of the foregoing, the Company shall promptly advise Parent in writing of any Legal Proceeding or other claim threatened, commenced or asserted against or with respect to the Company or any Company Subsidiary. No notification given to Parent pursuant to this Section 4.2(c) shall limit, modify, amend or otherwise affect any of the representations, warranties, covenants or obligations of the Company contained in this Agreement.

4.3 NO SOLICITATION.

(a) The Company shall not directly or indirectly, and shall not authorize or permit any Representative of the Company directly or indirectly to, (i) solicit, initiate, encourage or induce the making, submission or announcement of any Company Acquisition Proposal or take any action that could reasonably be expected to lead to any inquiries related to or the making of a Company Acquisition Proposal, (ii) furnish any information regarding the Company or any Company Subsidiary to any Person in connection with or in response to any inquiry relating to a Company Acquisition Proposal, (iii) engage in discussions or negotiations with any Person with respect to any Company Acquisition Proposal, (iv) approve, endorse or recommend any Company Acquisition Proposal or (v) enter into any letter of intent or similar document or any Contract contemplating or otherwise relating to any Company Acquisition Transaction; provided, however, that prior to the adoption and approval of this Agreement by the Required Company Stockholder Vote, the Company shall not be prohibited by this Section 4.3(a) from (A) furnishing nonpublic information regarding the Company or any Company Subsidiary to, or entering into discussions with, any Person in response to a Company Superior Offer that is submitted by such Person (and not withdrawn) relating to a Company Acquisition Transaction if (1) neither the Company nor any Representative of the Company shall have violated any of the restrictions set forth in this Section 4.3, (2) the board of directors of the Company concludes in good faith, based upon the advice of its outside legal counsel, that the failure to provide information in response to a written request by a Person making a Company Acquisition Proposal and the failure to consider the Company Acquisition Proposal would be reasonably likely to constitute a breach of its fiduciary obligations to the Company's stockholders under applicable law, (3) prior to furnishing any such nonpublic information to, or entering into discussions with, such Person, the Company gives Parent written notice of the identity of such Person, the terms and conditions of such Company Superior Offer and of the Company's intention to furnish nonpublic information to, or enter into discussions with, such Person, and it receives from such Person an executed confidentiality agreement containing customary limitations on the use and disclosure of all nonpublic written and oral information furnished to such Person by or on behalf of the Company and (4) prior to furnishing any such nonpublic information to such Person, the Company furnishes such nonpublic information to Parent (to the extent such nonpublic information has not been previously furnished by the Company to Parent), (B) withdrawing or modifying its unanimous recommendation referred to in Section 5.2(b) following receipt of a Company Superior Offer if after duly considering the advice of outside counsel to the Company, the board of directors of the Company determines in good faith that failure to do so would be reasonably likely to constitute a breach of its fiduciary obligations to the Company's stockholders under applicable law, or (C) complying with Rule 14e-2 promulgated under the Exchange Act with regard to a Company Acquisition Transaction. Without limiting the generality of the foregoing, the Company acknowledges and agrees that any violation of any of the restrictions set forth in the preceding

sentence by any of its Representatives, whether or not such Representative is purporting to act on behalf of the Company, shall be deemed to constitute a breach of this Section 4.3 by the Company. Nothing contained in this Section 4.3 shall limit the Company's obligation to call, give notice of, convene and hold the Company Stockholders' Meeting in accordance with Section 5.2.

(b) The Company shall promptly advise Parent orally and in writing of any Company Acquisition Proposal (including the identity of the Person making or submitting such Company Acquisition Proposal and the terms thereof) that is made or submitted by any Person during the Pre-Closing Period regardless of whether the Company intends to furnish any information to the Person making any such Company Acquisition Proposal. The Company shall keep Parent fully informed with respect to the status of any such Company Acquisition Proposal and any modification or proposed modification thereto. Prior to entering into any agreement or Contract with any Person in response to a Company Superior Offer, the Company shall give Parent the opportunity to match such Company Superior Offer by providing Parent with the terms of such Company Superior Offer in writing and allowing Parent three (3) business days to respond with a new offer. Each amendment or modification to any proposed Company Acquisition Transaction or Company Superior Offer shall be considered a new and separate proposal for a Company Acquisition Transaction or Company Superior Offer for the purposes of this Agreement.

(c) The Company shall immediately cease and cause to be terminated any existing discussions with any Person that relate to any Company Acquisition Proposal.

4.4 PARENT ACCESS AND INVESTIGATION. During the Pre-Closing Period, Parent shall, and shall cause the respective Representatives of Parent to: (a) provide the Company and the Company's Representatives with reasonable access to Parent's Representatives, personnel and assets and to all existing books, records, Tax Returns, work papers and other documents and information relating to Parent; and (b) provide the Company and the Company's Representatives with such copies of the existing books, records, Tax Returns, work papers and other documents and information relating to Parent, and with such additional financial, operating and other data and information regarding Parent, as the Company may reasonably request. Without limiting the generality of the foregoing, during the Pre-Closing Period, Parent shall promptly provide the Company with copies of:

(i) all material operating and financial reports prepared by Parent and each Parent Subsidiary for Parent's senior management, including (A) copies of the unaudited monthly consolidated balance sheets of Parent and the related unaudited monthly consolidated statements of operations, statements of shareholders' equity and statements of cash flows and (B) copies of any sales forecasts, marketing plans, development plans, discount reports, write-off reports, hiring reports and capital expenditure reports prepared for Parent's senior management;

(ii) any written materials or communications sent by or on behalf of Parent to its shareholders;

(iii) any material notice, document or other communication sent by or on behalf of Parent or any Parent Subsidiary to any party to any Parent Contract or sent to Parent or any Parent Subsidiary by any party to any Parent Contract (other than any communication that relates solely to routine commercial transactions between Parent and the other party to any such Parent Contract and that is of the type sent in the ordinary course of business and consistent with past practices); and

(iv) any notice, report or other document received by Parent or any Parent Subsidiary from, or filed with or sent by Parent or any Parent Subsidiary to any Governmental Body.

4.5 OPERATION OF PARENT'S BUSINESS.

(a) During the Pre-Closing Period: (i) Parent shall ensure that Parent and each Parent Subsidiary conducts its business and operations (A) in the ordinary course and in accordance with past practices and (B) in compliance with all applicable Legal Requirements and the requirements of all Parent Contracts that constitute Material Parent Contracts; (ii) Parent shall use all reasonable efforts to ensure that Parent and each Parent Subsidiary preserves intact its current business organization, keeps available the services of its current officers and other employees and maintains its relations and goodwill with all suppliers, customers, landlords, creditors, licensors, licensees, employees, consultants and other Persons having business relationships with Parent or a Parent Subsidiary; (iii) Parent shall keep in full force all insurance policies referred to in Section 3.13; and (iv) Parent shall (to the extent requested by the Company) cause its officers and the officers of each Parent Subsidiary to report regularly to the Company concerning the status of Parent's and each Parent's and each Parent Subsidiary's business.

(b) During the Pre-Closing Period, Parent shall not, except as set forth in Schedule 4.5(b) (without the prior written consent of the Company), and shall not permit any Parent Subsidiary to:

(i) declare, accrue, set aside or pay any dividend or make any other distribution in respect of any shares of capital stock, or repurchase, redeem or otherwise reacquire any shares of capital stock or other securities;

(ii) sell, issue, grant or authorize the issuance or grant of (A) any capital stock or other security, (B) any option, call, warrant or right to acquire any capital stock or other security, or (C) any instrument convertible into or exchangeable for any capital stock or other security (except that Parent may issue shares and grant options to purchase shares of Parent Common Stock under stock option plans approved by its board of directors and shareholders totaling up to 100,000 and issue shares of Parent Common Stock (x) upon the valid exercise of Parent Options outstanding as of the date of this Agreement or such additional options, and (y) upon the exercise of Parent Warrants outstanding as of the date of this Agreement), and except that Parent may amend its stock option plan(s) to authorize additional shares of Parent Common Stock for issuance thereunder in connection with the conversion of the Company Options at the Effective Time ("Parent Option Plan Amendments");

(iii) amend or waive any of its rights under, or accelerate the vesting under, any provision of any of Parent's stock option plans, any provision of any agreement evidencing any outstanding stock option or any restricted stock purchase agreement, other than pursuant to agreements in existence on the date hereof, copies of which have been provided to the other parties hereto, or otherwise modify any of the terms of any outstanding option, warrant or other security or any related Contract;

(iv) amend or permit the adoption of any amendment to its articles of incorporation (other than the Amended Articles) or bylaws or other charter or organizational documents, adopt any shareholder rights plan ("poison pill") or effect or become a party to any merger, consolidation, amalgamation, share exchange, business combination, recapitalization, reclassification of shares, stock split, division or subdivision of shares, reverse stock split, consolidation of shares or similar transaction;

(v) form any Subsidiary or acquire any equity interest or other interest in any other Entity or any other business;

(vi) make any capital expenditure in excess of $100,000;

(vii) enter into or become bound by, or permit any of the assets owned or used by it to become bound by, any Parent Collaboration Agreement or any Material Parent Contract, or amend or terminate, or waive or exercise any material right or remedy under, any Parent Collaboration Agreement or any Material Parent Contract, other than in the ordinary course of business consistent with past practices;

(VIII) acquire, lease or license any right or other asset from any other Person or sell or otherwise dispose of, or lease or license, any right or other asset to any other Person (except in each case for immaterial assets (other than Parent Proprietary Assets) acquired, leased, licensed or disposed of by Parent in the ordinary course of business and consistent with past practices), or waive or relinquish any material right;

(ix) lend money to any Person, or incur or guarantee any indebtedness;

(x) establish, adopt or amend any employee benefit plan, pay any bonus or make any profit-sharing or similar payment to, or increase the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of its directors, officers or employees;

(xi) prepay any material claim, Liability or obligation, or pay, discharge or satisfy any material unliquidated or contingent Liability;

(xii) enter into or amend any employment agreement, severance agreement, special pay arrangement with respect to termination of employment or other similar arrangement or agreement with any director, officer or employee of Parent,

(XIII) make or fail to make any material election concerning the term, scope or termination of any real property lease, or waive any material provision of any such lease or enter into any new real property lease;

(xiv) engage in any transaction with any shareholder, director, officer or employee other than in the ordinary course of business consistent with past practice;

(xv) make any Tax election;

(xvi) commence or settle any Legal Proceeding;

(XVII) enter into any material transaction or take any other material action outside the ordinary course of business or inconsistent with past practices; or

(XVIII) agree or commit to take any of the actions described in clauses "(i)" through "(xviii)" of this Section 4.5(b).

(c) During the Pre-Closing Period, Parent shall promptly notify the Company in writing of: (i) the discovery by Parent of any event, condition, fact or circumstance that occurred or existed on or prior to the date of this Agreement and that caused or constitutes a material inaccuracy in any representation or warranty made by Parent in this Agreement; (ii) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute a material inaccuracy in any representation or warranty made by Parent in this Agreement if (A) such representation or warranty had been made as of the time of the occurrence, existence or discovery of such event, condition, fact or circumstance, or (B) such event, condition, fact or circumstance had occurred, arisen or existed on or prior to the date of this Agreement; (iii) any material breach of any covenant or obligation of Parent; and (iv) any event, condition, fact or circumstance that would make the timely satisfaction of any of the conditions set forth in Section 6 or Section 7 impossible or unlikely or that has had or could reasonably be expected to have a Material Adverse Effect on Parent or any Parent Subsidiary. Without limiting the generality of the foregoing, Parent shall promptly advise the Company in writing of any Legal Proceeding or other claim threatened, commenced or asserted against or with respect to Parent or any Parent Subsidiary. No notification given to the Company pursuant to this Section 4.5(c) shall limit, modify, amend or otherwise affect any of the representations, warranties, covenants or obligations of Parent contained in this Agreement.

4.6 NO SOLICITATION.

(a) Parent shall not directly or indirectly, and shall not authorize or permit any Representative of Parent directly or indirectly to, (i) solicit, initiate, encourage or induce the making, submission or announcement of any Parent Acquisition Proposal or take any action that could reasonably be expected to lead to any inquiries related to or the making of a Parent Acquisition Proposal, (ii) furnish any information regarding Parent or any Parent Subsidiary to any Person in connection with or in response to any inquiry relating to a Parent Acquisition Proposal, (iii) engage in discussions or negotiations with any Person with respect to any Parent Acquisition Proposal, (iv) approve, endorse or recommend any Parent Acquisition Proposal or (v) enter into any letter of intent or similar document or any Contract contemplating or otherwise relating to any Parent Acquisition Transaction; provided, however, that prior to the

adoption and approval of this Agreement by the Required Parent Shareholder Vote, Parent shall not be prohibited by this Section 4.6(a) from (A) furnishing nonpublic information regarding Parent or any Parent Subsidiary to, or entering into discussions with, any Person in response to a Parent Superior Offer that is submitted by such Person (and not withdrawn) relating to a Parent Acquisition Transaction if (1) neither Parent nor any Representative of Parent shall have violated any of the restrictions set forth in this Section 4.6, (2) the board of directors of Parent concludes in good faith, based upon the advice of its outside legal counsel, that the failure to provide information in response to a written request by a Person making a Parent Acquisition Proposal and the failure to consider the Parent Acquisition Proposal would be reasonably likely to constitute a breach of its fiduciary obligations to Parent's shareholders under applicable law, (3) at least five (5) business days prior to furnishing any such nonpublic information to, or entering into discussions with, such Person, Parent gives the Company written notice of the identity of such Person, the terms and conditions of such Parent Superior Offer and of Parent's intention to furnish nonpublic information to, or enter into discussions with, such Person, and it receives from such Person an executed confidentiality agreement containing customary limitations on the use and disclosure of all nonpublic written and oral information furnished to such Person by or on behalf of Parent and (4) prior to furnishing any such nonpublic information to such Person, Parent furnishes such nonpublic information to the Company (to the extent such nonpublic information has not been previously furnished by Parent to the Company), (B) withdrawing or modifying its unanimous recommendation referred to in Section 5.3(b) following receipt of a Parent Superior Offer if after duly considering the advice of outside counsel to Parent, the board of directors of Parent determines in good faith that failure to do so would be reasonably likely to constitute a breach of its fiduciary obligations to Parent's shareholders under applicable law, or (C) complying with Rule 14e-2 promulgated under the Exchange Act with regard to a Parent Acquisition Transaction. Without limiting the generality of the foregoing, Parent acknowledges and agrees that any violation of any of the restrictions set forth in the preceding sentence by any of its Representatives, whether or not such Representative is purporting to act on behalf of Parent, shall be deemed to constitute a breach of this Section 4.6 by Parent. Nothing contained in this Section 4.6 shall limit Parent's obligation to call, give notice of, convene and hold the Parent Shareholders' Meeting in accordance with Section 5.3.

(b) Parent shall promptly advise the Company orally and in writing of any Parent Acquisition Proposal (including the identity of the Person making or submitting such Parent Acquisition Proposal and the terms thereof) that is made or submitted by any Person during the Pre-Closing Period regardless of whether Parent intends to furnish any information to the Person making any such Parent Acquisition Proposal. Parent shall keep the Company fully informed with respect to the status of any such Parent Acquisition Proposal and any modification or proposed modification thereto. Prior to entering into any agreement or Contract with any Person in response to a Parent Superior Offer, Parent shall give the Company the opportunity to match such Parent Superior Offer by providing the Company with the terms of such Parent Superior Offer in writing and allowing the Company five (5) business days to respond with a new offer. Each amendment or modification to any proposed Parent Acquisition Transaction or Parent Superior Offer shall be considered a new and separate proposal for a Parent Acquisition Transaction or Parent Superior Offer for the purposes of this Agreement.

(c) Parent shall immediately cease and cause to be terminated any existing discussions with any Person that relate to any Parent Acquisition Proposal.

5. ADDITIONAL COVENANTS OF THE PARTIES

5.1 REGISTRATION STATEMENT; PROSPECTUS/PROXY STATEMENT.

(a) As promptly as practicable after the date of this Agreement, Parent and the Company shall prepare and cause to be filed with the SEC the Prospectus/Proxy Statement and Parent shall prepare and cause to be filed with the SEC the Form S-4 Registration Statement, in which the Prospectus/Proxy Statement will be included as a prospectus. Each of Parent and the Company shall use all reasonable efforts to cause the Form S-4 Registration Statement and the Prospectus/Proxy Statement to comply with the rules and regulations promulgated by the SEC, to respond promptly to any comments of the SEC or its staff and to have the Form S-4 Registration Statement declared effective under the Securities Act as promptly as practicable after it is filed with the SEC. Each of the Company and Parent will use all reasonable efforts to cause the Prospectus/Proxy Statement to be mailed to their respective stockholders as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act. Parent and the Company shall promptly furnish to the other party all information concerning it and its stockholders that may be required or reasonably requested in connection with any action contemplated by this Section 5.1. If any event relating to the Company or Parent occurs, or if the Company or Parent becomes aware of any information, that should be disclosed in an amendment or supplement to the Form S-4 Registration Statement or the Prospectus/Proxy Statement, then the Company or Parent, as the case may be, shall promptly inform the other party thereof and shall cooperate with such party in filing such amendment or supplement with the SEC and, if appropriate, in mailing such amendment or supplement to the stockholders of the Company and Parent.

(b) Prior to the Effective Time, Parent shall use all reasonable efforts to obtain all regulatory approvals needed to ensure that the Parent Common Stock to be issued in the Merger will be registered or qualified under the securities law of every jurisdiction of the United States in which any registered holder of Company Common Stock has an address of record on the record date for determining the stockholders entitled to notice of and to vote at the Company Stockholders' Meeting; provided, however, that Parent shall not be required (i) to qualify to do business as a foreign corporation in any jurisdiction in which it is not now qualified or (ii) to file a general consent to service of process in any jurisdiction.

5.2 COMPANY STOCKHOLDERS' MEETING.

(a) The Company shall take all action necessary under all applicable Legal Requirements to call, give notice of, convene and duly hold a meeting of the holders of Company capital stock entitled to vote on the Merger to consider, act upon and vote upon the adoption and approval of this Agreement and the approval of the Merger and the transactions contemplated hereby to the extent stockholder approval is required under applicable law or by contractual arrangement (the "Company Stockholders' Meeting"). The Company Stockholders' Meeting will be held as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act. The Company shall ensure that the Company Stockholders' Meeting is called, noticed, convened, held and conducted, and that all proxies solicited in connection with the Company Stockholders' Meeting are solicited, in compliance with all applicable Legal Requirements. The Company's obligation to call, give notice of,

convene and hold the Company Stockholders' Meeting in accordance with this Section 5.2(a) shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission of any Company Superior Offer or other Company Acquisition Proposal, or by any withdrawal, amendment or modification of the unanimous recommendation of the board of directors of the Company with respect to the Merger.

(b) Subject to Section 5.2(c): (i) the board of directors of the Company shall unanimously recommend that the Company's stockholders vote in favor of and adopt and approve this Agreement and approve the Merger at the Company Stockholders' Meeting; (ii) the Prospectus/Proxy Statement shall include a statement to the effect that the board of directors of the Company has unanimously recommended that the Company's stockholders vote in favor of and adopt and approve this Agreement and approve the Merger at the Company Stockholders' Meeting; and (iii) neither the board of directors of the Company nor any committee thereof shall withdraw, amend or modify, or propose or resolve to withdraw, amend or modify, in a manner adverse to Parent, the unanimous recommendation of the board of directors of the Company that the Company's stockholders vote in favor of and adopt and approve this Agreement and approve the Merger. For the purposes of this Agreement, said unanimous recommendation of the board of directors of the Company shall be deemed to have been modified in a manner adverse to Parent if said recommendation shall no longer be unanimous.

(c) Nothing in Section 5.2(b) shall prevent the board of directors of the Company from withdrawing, amending or modifying its recommendation in favor of the Merger at any time prior to the adoption and approval of this Agreement by the Required Company Stockholder Vote if (i) a Company Superior Offer is made to the Company and is not withdrawn, (ii) neither the Company nor any of its Representatives shall have violated any of the restrictions set forth in Section 4.3, (iii) the board of directors of the Company concludes in good faith, based upon the advice of its outside counsel, that the failure to withdraw, amend or modify such unanimous recommendation would reasonably be likely to constitute a breach of the board of directors' fiduciary obligations to the Company's stockholders under applicable law. Nothing contained in Section 4.3 or this Section 5.2 shall limit the Company's obligation to call, give notice of, convene and hold the Company Stockholders' Meeting (regardless of whether the unanimous recommendation of the board of directors of the Company shall have been withdrawn, amended or modified) provided that nothing contained in this Section 5.2 shall require the Company to call, give notice of, convene or hold the Company Stockholders' Meeting in the event this Agreement is terminated pursuant to Section 8.1.

5.3 PARENT SHAREHOLDERS' MEETING.

(a) Parent shall take all action necessary under all applicable Legal Requirements to call, give notice of, convene and hold a meeting of the holders of Parent Common Stock (the "Parent Shareholders' Meeting") to consider, act upon and vote upon (i) the adoption and approval of this Agreement and the approval of the Merger, (ii) the amendment and restatement of Parent's Articles of Incorporation as provided in Section 1.4, (iii) an amendment of Parent's Bylaws to increase the authorized number of directors of Parent to not less than four (4) nor more than nine (9), (iv) an increase of the number of shares reserved for issuance under Parent's 1992 Stock Option Plan and 1993 Non-Employee Directors' Equity Incentive Plan to

7,500,000 and 750,000, respectively, and (v) the other matters contemplated by this Agreement (collectively, the "Parent Proposals"). The Parent Shareholders' Meeting will be held as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act. The Parent shall ensure that the Parent Shareholders' Meeting is called, noticed, convened, held and conducted, and that all proxies solicited in connection with the Parent Shareholders' Meeting are solicited, in compliance with all applicable Legal Requirements. Parent's obligation to call, give notice of, convene and hold the Parent Shareholders' Meeting in accordance with this Section 5.3(a) shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission of any Parent Superior Offer or other Parent Acquisition Proposal, or by any withdrawal, amendment or modification of the unanimous recommendation of the board of directors of the Parent with respect to the Merger.

(b) Subject to Section 5.3(c): (i) the board of directors of Parent shall unanimously recommend that Parent's shareholders vote in favor of and adopt and approve this Agreement and approve the Merger and the other matters contemplated by this Agreement, including, but not limited to, the Parent Proposals at the Parent Shareholders' Meeting; (ii) the Prospectus/Proxy Statement shall include a statement to the effect that the board of directors of the Parent has unanimously recommended that the Parent's shareholders vote in favor of and adopt and approve this Agreement and approve the Merger and the Parent Proposals at the Parent Shareholders' Meeting; and (iii) neither the board of directors of the Parent nor any committee thereof shall withdraw, amend or modify, or propose or resolve to withdraw, amend or modify, in a manner adverse to Parent, the unanimous recommendation of the board of directors of the Parent that the Parent's shareholders vote in favor of and adopt and approve this Agreement and approve the Merger and the Parent Proposals. For the purposes of this Agreement, said unanimous recommendation shall be deemed to have been modified in a manner adverse to the Company if said recommendation shall no longer be unanimous.

(c) Nothing in Section 5.3(b) shall prevent the board of directors of Parent from withdrawing, amending or modifying its recommendation in favor of the Merger at any time prior to the adoption and approval of this Agreement by the Required Parent Shareholder Vote if (i) a Parent Superior Offer is made to the Parent and is not withdrawn, (ii) neither Parent nor any of its Representatives shall have violated any of the restrictions set forth in Section 4.6, (iii) the board of directors of the Parent concludes in good faith, based upon the advice of its outside counsel, that the failure to withdraw, amend or modify such unanimous recommendation would reasonably be likely to constitute a breach of the board of directors' fiduciary obligations to Parent's shareholders under applicable law. Nothing contained in Section 4.6 or this Section 5.3 shall limit Parent's obligation to call, give notice of, convene and hold the Parent Shareholders' Meeting (regardless of whether the unanimous recommendation of the board of directors of Parent shall have been withdrawn, amended or modified) provided that nothing contained in this Section 5.3 shall require Parent to call, give notice of, convene or hold the Parent Shareholders' Meeting in the event this Agreement is terminated pursuant to Section 8.1.

5.4 REGULATORY APPROVALS. Each party shall use all reasonable efforts to file, as promptly as practicable after the date of this Agreement, all notices, reports and other documents required to be filed by such party with any Governmental Body with respect to the Merger and the other transactions contemplated by this Agreement, and to submit promptly any

additional information requested by any such Governmental Body. The Company and Parent shall respond as promptly as practicable to any inquiries or requests received from any state attorney general or other Governmental Body in connection with antitrust or related matters. Each of the Company and Parent shall (1) give the other party prompt notice of the commencement of any Legal Proceeding by or before any Governmental Body with respect to the Merger or any of the other transactions contemplated by this Agreement, (2) keep the other party informed as to the status of any such Legal Proceeding, and (3) promptly inform the other party of any communication to or from any Governmental Body regarding the Merger. The Company and Parent will consult and cooperate with one another, and will consider in good faith the views of one another, in connection with any analysis, appearance, presentation, memorandum, brief, argument, opinion or proposal made or submitted in connection with any Legal Proceeding under or relating to the any federal or state antitrust or fair trade law. In addition, except as may be prohibited by any Governmental Body or by any Legal Requirement, in connection with any Legal Proceeding under or relating to any federal or state antitrust or fair trade law or any other similar Legal Proceeding, each of the Company and Parent will permit authorized Representatives of the other party to be present at each meeting or conference relating to any such Legal Proceeding and to have access to and be consulted in connection with any document, opinion or proposal made or submitted to any Governmental Body in connection with any such Legal Proceeding.

5.5 STOCK OPTIONS.

(a) Parent shall file with the SEC, within 30 days after the date on which the Merger becomes effective, a registration statement on Form S-8 relating to the shares of Parent Common Stock issuable with respect to the Company Options assumed by Parent in accordance with Section 1.5(e).

(b) The Company shall take all action that may be necessary (under the plans pursuant to which Company Options are outstanding and otherwise) to effectuate the provisions of Section 1.5(e) and this Section 5.5 and to ensure that, from and after the Effective Time, holders of Company Options have no rights with respect thereto other than those specifically provided in Section 1.5(e).

5.6 EMPLOYEE BENEFITS. Parent shall, and shall cause the Surviving Corporation to, from and after the Effective Time, (i) comply with the health, vacation and other employee benefit plans of the Company and any Company Subsidiary in accordance with their terms, (ii) provide employees of the Company and any Company Subsidiary prior to the Effective Time who remain as employees of the Surviving Corporation (or any subsidiary thereof) or Parent with employee benefit plans no less favorable in the aggregate than those provided to similarly situated employees of Parent, (iii) provide employees of the Company and any Company Subsidiary prior to the Effective Time who remain as employees of the Surviving Corporation or Parent credit for years of service with the Company or any Company Subsidiary prior to the Effective Time for (A) the purpose of eligibility and vesting but not benefit accrual under the Parent's health, pension, vacation and other employee benefit plans, and (B) any and all pre-existing condition limitations and eligibility waiting periods under health and other employee benefit plans of Parent, and (iv) cause to be credited to any deductible out-of-pocket expense under any health and other employee benefit plans of Parent any deductibles or out-of

- -pocket expenses incurred by employees of the Company and their beneficiaries and dependents during the portion of the calendar year prior to their participation in the health and other employee benefit plans of Parent. Parent shall, and shall cause the Surviving Corporation to, honor in accordance with their terms, all health, pension, vacation and other employee benefit plans of the Company and any Company Subsidiary (subject to compliance and conformity with employee benefit plans of Parent), vested or accrued benefit obligations to, and contractual rights of, current and former employees of the Company and the Company Subsidiaries.

5.7 INDEMNIFICATION OF OFFICERS AND DIRECTORS.

(a) All rights to indemnification existing in favor of those Persons who are directors and officers of the Company as of the date of this Agreement (the "Indemnified Persons") for acts and omissions occurring prior to the Effective Time, as provided in the Company's Bylaws (as in effect as of the date of this Agreement) and as provided in the indemnification agreements between the Company and said Indemnified Persons (as in effect as of the date of this Agreement), shall survive the Merger and shall be observed by the Surviving Corporation to the fullest extent available under Delaware law for a period of six years from the Effective Time.

(b) From the Effective Time until the fifth anniversary of the Effective Time, the Surviving Corporation shall maintain in effect, for the benefit of the Indemnified Persons with respect to acts or omissions occurring prior to the Effective Time, the existing policy of directors' and officers' liability insurance maintained by the Company as of the date of this Agreement (the "Existing Policy"); provided, however, that (i) the Surviving Corporation may substitute for the Existing Policy a policy or policies of comparable coverage, and (ii) the Surviving Corporation shall not be required to pay an annual premium for the Existing Policy (or for any substitute policies) in excess of 200% of the current premium. In the event any future annual premium for the Existing Policy (or any substitute policies) exceeds such limit, the Surviving Corporation shall reduce the amount of coverage of the Existing Policy (or any substitute policies) to the amount of coverage that can be obtained for a premium that exceeds such limits.

5.8 ADDITIONAL AGREEMENTS. Parent and the Company shall use all reasonable efforts to take, or cause to be taken, all actions necessary to effectuate the Merger and make effective the other transactions contemplated by this Agreement. Without limiting the generality of the foregoing, each party to this Agreement (i) shall make all filings (if any) and give all notices (if any) required to be made and given by such party in connection with the Merger and the other transactions contemplated by this Agreement, (ii) shall use all reasonable efforts to obtain each Consent (if any) required to be obtained (pursuant to any applicable Legal Requirement or Contract, or otherwise) by such party in connection with the Merger or any of the other transactions contemplated by this Agreement, and (iii) shall use all reasonable efforts to lift any restraint, injunction or other legal bar to the Merger. Parent and the Company shall promptly deliver to the other party a copy of each such filing made, each such notice given and each such Consent obtained by the Parent or Company, as the case may be, during the Pre-Closing Period.

5.9 DISCLOSURE. Parent and the Company shall consult with each other before issuing any press release or otherwise making any public statement with respect to the Merger or any of the other transactions contemplated by this Agreement. Without limiting the generality of the foregoing, neither Parent nor the Company shall, and neither shall permit any Subsidiary or Representative to, make any disclosure regarding the Merger or any of the other transactions contemplated by this Agreement unless (a) the other party shall have approved such disclosure or (b) the disclosing party shall have been advised in writing by its outside legal counsel that such disclosure is required by applicable law.

5.10 AFFILIATE AGREEMENTS. The Company shall cause each Person who is or becomes (or may be deemed to be) an "affiliate" (as that term is used in Rule 145 under the Securities Act) of the Company to execute and deliver to Parent, prior to the date of the mailing of the Prospectus/Proxy Statement to the Company's stockholders, an Affiliate Agreement in the form of Exhibit F.

5.11 TAX MATTERS. At or prior to the filing of the Form S-4 Registration Statement, the Company and Parent shall execute and deliver to Cooley Godward LLP and to Latham & Watkins tax representation letters in customary form. Parent, Merger Sub and the Company shall each confirm to Cooley Godward LLP and to Latham & Watkins the accuracy and completeness as of the Effective Time of the tax representation letters delivered pursuant to the immediately preceding sentence. Parent and the Company shall use all reasonable efforts prior to the Effective Time to cause the Merger to qualify as a tax free reorganization under Section 368(a)(1) of the Code. Following delivery of the tax representations letters pursuant to the first sentence of this Section 5.11, each of Parent and the Company shall use its reasonable efforts to cause Cooley Godward LLP and Latham & Watkins, respectively, to deliver to it a tax opinion satisfying the requirements of Item 601 of Regulation S-K promulgated under the Securities Act. In rendering such opinions, each of such counsel shall be entitled to rely on the tax representation letters referred to in this Section 5.11.

5.12 LISTING. Parent shall use all reasonable efforts to cause the shares of Parent Common Stock being issued in the Merger to be approved for listing (subject to notice of issuance) on AMEX.

5.13 CERTAIN PARENT REGULATORY MATTERS.

(a) Parent will by August 31, 1999 take all steps necessary to complete Parent's Lee's Summit, Kansas manufacturing facility for Sildaflo and to validate the facility, equipment and cleaning methods in material compliance with "current good manufacturing practices" (cGMPs), as defined in Parts 210 and 211 of Title 21 of the Code of Federal Regulations (1998), and any guidance documents issued by the agency that purport to interpret these regulations, and in accordance with any requirement set forth in the approved new drug application (NDA) for Sildaflo. Parent will consult with the Company and its advisors on a regular basis regarding the foregoing manufacturing facility and, if requested by the Company, will engage a drug GMP consultant of the Company's choice at the Company's expense to evaluate the facility for compliance with federal, state and local drug manufacturing standards. Any request by the Company or any consultant of the Company that results in any delay shall cause the August 31 date to be extended by the length of the delay.

(b) Parent will have the manufacturing processes for Sildaflo and the related analytical methods validated by November 30, 1999 and will file with the FDA all necessary application(s) for approvals from the FDA to manufacture, test and label Sildaflo by that date. Parent will consult with the Company and its advisors on a regular basis regarding such applications and approvals and will permit the Company's FDA counsel to review and comment on any and all FDA applications prior to submitting them to the FDA. The Company acknowledges that on that date, Parent will have only three (3) months stability data on Sildaflo.

6. CONDITIONS PRECEDENT TO OBLIGATIONS OF PARENT AND MERGER SUB

The obligations of Parent and Merger Sub to effect the Merger and otherwise consummate the transactions contemplated by this Agreement are subject to the satisfaction, at or prior to the Closing, of each of the following conditions:

6.1 ACCURACY OF REPRESENTATIONS.

(a) Without limiting the effect or independence of the condition set forth in Section 6.1(b), the representations and warranties of the Company contained in this Agreement shall have been accurate in all respects as of the date of this Agreement (except to the extent such representations and warranties which are expressly stated to be made as of an earlier date, which shall be true and correct in all respects as of such date), it being understood that for the purposes of determining the accuracy of such representations and warranties each of the following shall be disregarded: (i) any "Material Adverse Effect" qualification or any other materiality qualifications contained in such representations and warranties, (ii) any inaccuracy that does not, together will all other inaccuracies, have a Company Material Adverse Effect, (iii) any inaccuracy that results from general business or economic conditions, (iv) any inaccuracy that results from conditions generally affecting the industry in which the Company or the Company's Subsidiaries competes, (v) any inaccuracy that results from the announcement or pendency of the Merger or any of the transactions contemplated hereby, and (vi) any inaccuracy that results from or relates to the taking of any action contemplated by this Agreement.

(b) Without limiting the effect or independence of the condition set forth in Section 6.1(a), the representations and warranties of the Company contained in this Agreement (except to the extent such representations and warranties which are expressly stated to be made as of an earlier date, which shall be true and correct in all respects as of such date) shall be accurate in all respects as of the Closing Date, it being understood that for the purposes of determining the accuracy of such representations and warranties each of the following shall be disregarded: (i) any "Material Adverse Effect" qualification or any other materiality qualifications contained in such representations and warranties, (ii) any inaccuracy that does not, together with all other inaccuracies, have a Company Material Adverse Effect, (iii) any inaccuracy that results from general business or economic conditions, (iv) any inaccuracy that results from conditions generally affecting the industry in which the Company or the Company's Subsidiaries competes, (v) any inaccuracy that results from the announcement or pendency of the Merger or any of the transactions contemplated hereby, and (vi) any inaccuracy that results from the taking of any action contemplated by this Agreement.

6.2 PERFORMANCE OF COVENANTS. Each covenant or obligation that the Company is required to comply with or to perform at or prior to the Closing shall have been complied with and performed, except where the failure to perform such covenants or obligations would not have a Material Adverse Effect on the Company or Parent.

6.3 EFFECTIVENESS OF REGISTRATION STATEMENT. The Form S-4 Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order shall have been issued by the SEC with respect to the Form S-4 Registration Statement.

6.4 STOCKHOLDER APPROVAL. This Agreement and the Merger shall have been duly adopted and approved, and the Merger shall have been duly approved, by the Required Company Stockholder Vote and by the Required Parent Shareholder Vote and the Parent Proposals shall have been approved as required by applicable law.

6.5 CONSENTS. All Consents required to be obtained by the Company that are specifically set forth on Exhibit G attached hereto shall have been obtained and shall be in full force and effect.

6.6 AGREEMENTS AND DOCUMENTS. Parent shall have received the following agreements and documents, each of which shall be in full force and effect:

(a) an employment agreement in substantially the form attached hereto as Exhibit H which shall have been executed and delivered by Parent and Charles J. Casamento, and such agreement shall become effective as of the Closing Date;

(b) a separation and consulting agreement in substantially the form attached hereto as Exhibit I-1 which shall have been executed and delivered by Parent and Paul J. Marangos and such agreement shall become effective as of the Closing Date, and an executive severance benefits agreement shall have been executed and delivered by Parent and Dr. Marangos in substantially the form attached hereto as Exhibit I-2 (or a similar agreement which

provides Dr. Marangos with an equivalent economic benefit as reflected therein) and such agreement shall become effective as of or prior to the Closing Date;

(c) a legal opinion of Cooley Godward LLP dated as of the Closing Date and addressed to Parent, to the effect that the Merger will constitute a reorganization within the meaning of Section 368 of the Code (it being understood that, in rendering such opinion, Cooley Godward LLP may rely upon the tax representation letters referred to in Section 5.11); provided, however, that if Cooley Godward LLP does not render such opinion or withdraws or modifies such opinion, this condition shall nonetheless be deemed satisfied if Latham & Watkins, counsel to the Company, renders such opinion to Parent.

(d) a certificate executed on behalf of the Company by its Chief Executive Officer confirming that the conditions set forth in Sections 6.1, 6.2, 6.4, 6.5 and 6.7, have been duly satisfied; and

(e) except as set forth on Exhibit B, the written resignations of all officers and directors of the Company, effective as of the Effective Time.

6.7 COMPANY RIGHTS PLAN. All necessary actions shall have been taken to extinguish and cancel all outstanding Rights under the Company Rights Plan or render such Company Rights Plan inapplicable to the Merger and the other transactions contemplated by this Agreement.

6.8 DIRECTORS AND OFFICERS. All of the persons listed in Exhibit B shall have been duly appointed as directors and officers of Parent and Merger Sub, as applicable.

6.9 LISTING. The shares of Parent Common Stock to be issued in the Merger shall have been approved for listing (subject to notice of issuance) on AMEX.

6.10 NO RESTRAINTS. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Merger shall have been issued by any court of competent jurisdiction and remain in effect, and there shall not be any Legal Requirement applicable to the Merger that makes consummation of the Merger illegal.

6.11 NO GOVERNMENTAL LITIGATION. There shall not be pending or threatened any Legal Proceeding in which a Governmental Body is or is threatened to become a party or is otherwise involved, and neither Parent nor the Company shall have received any communication from any Governmental Body in which such Governmental Body indicates the possibility of commencing any Legal Proceeding or taking any other action: (a) challenging or seeking to restrain or prohibit the consummation of the Merger or any of the other transactions contemplated by this Agreement; (b) relating to the Merger and seeking to obtain from Parent or any of its Subsidiaries, or the Company or any of its Subsidiaries, any damages or other relief that may be material to Parent and the Company, taken as a whole, following the Merger; (c) seeking to prohibit or limit in any material respect Parent's ability to vote, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of the Company; or (d) which would materially and adversely affect the right of Parent or the Company to own the assets or operate the business of the Company following the Merger.

7. CONDITIONS PRECEDENT TO OBLIGATION OF THE COMPANY

The obligation of the Company to effect the Merger and otherwise consummate the transactions contemplated by this Agreement are subject to the satisfaction, at or prior to the Closing, of the following conditions:

7.1 ACCURACY OF REPRESENTATIONS.

(a) Without limiting the effect or independence of the condition set forth in Section 7.1(b), the representations and warranties of Parent and Merger Sub contained in this Agreement shall have been accurate in all respects as of the date of this Agreement (except to the extent such representations and warranties which are expressly stated to be made as of an earlier date, which shall be true and correct in all respects as of such date), it being understood that for the purposes of determining the accuracy of such representations and warranties each of the following shall be disregarded: (i) any "Material Adverse Effect" qualification or any other materiality qualifications contained in such representations and warranties, (ii) any inaccuracy that does not, together will all other inaccuracies, have a Parent Material Adverse Effect, (iii) any inaccuracy that results from general business or economic conditions, (iv) any inaccuracy that results from conditions generally affecting the industry in which Parent or Parent's Subsidiaries competes, (v) any inaccuracy that results from the announcement or pendency of the Merger or any of the transactions contemplated hereby, and (vi) any inaccuracy that results from or relates to the taking of any action contemplated by this Agreement.

(b) Without limiting the effect or independence of the condition set forth in Section 7.1(a), the representations and warranties of Parent and Merger Sub contained in this Agreement (except to the extent such representations and warranties which are expressly stated to be made as of an earlier date, which shall be true and correct in all respects as of such date) shall be accurate in all respects as of the Closing Date, it being understood that for the purposes of determining the accuracy of such representations and warranties each of the following shall be disregarded: (i) any "Material Adverse Effect" qualification or any other materiality qualifications contained in such representations and warranties, (ii) any inaccuracy that does not, together with all other inaccuracies, have a Parent Material Adverse Effect, (iii) any inaccuracy that results from general business or economic conditions, (iv) any inaccuracy that results from conditions generally affecting the industry in which Parent or Parent's Subsidiaries competes, (v) any inaccuracy that results from the announcement or pendency of the Merger or any of the transactions contemplated hereby, and (vi) any inaccuracy that results from the taking of any action contemplated by this Agreement.

7.2 PERFORMANCE OF COVENANTS. All of the covenants and obligations that Parent and Merger Sub are required to comply with or to perform at or prior to the Closing shall have been complied with and performed, except where the failure to perform such covenants or obligations would not have a Material Adverse Effect on the Company or Parent.

7.3 EFFECTIVENESS OF REGISTRATION STATEMENT. The Form S-4 Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order shall have been issued by the SEC with respect to the Form S-4 Registration Statement.

7.4 STOCKHOLDER APPROVAL. This Agreement and the Merger shall have been duly adopted and approved, and the Merger shall have been duly approved, by the Required Company Stockholder Vote and by the Required Parent Shareholder Vote and the Parent Proposals shall have been approved as required by applicable law.

7.5 CONSENTS. All Consents required to be obtained by Parent that are specifically set forth on Exhibit J attached hereto shall have been obtained and shall be in full force and effect.

7.6 AGREEMENTS AND DOCUMENTS. Parent and the Company shall have received the following agreements and documents, each of which shall be in full force and effect:

(a) an employment agreement in substantially the form attached hereto as Exhibit H which shall have been executed and delivered by Parent and Charles J. Casamento, and such agreement shall become effective as of the Closing Date;

(b) a separation and consulting agreement in substantially the form attached hereto as Exhibit I-1 which shall have been executed and delivered by Parent and Paul J. Marangos and such agreement shall become effective as of the Closing Date, and an executive severance benefits agreement shall have been executed and delivered by Parent and Dr. Marangos in substantially the form attached hereto as Exhibit I-2 (or a similar agreement which provides Dr. Marangos with an equivalent economic benefit as reflected therein) and such agreement shall become effective as of or prior to the Closing Date;

(c) a legal opinion of Latham & Watkins, dated as of the Closing Date, to the effect that the Merger will constitute a reorganization within the meaning of Section 368 of the Code (it being understood that, in rendering such opinion, Latham & Watkins may rely upon the tax representation letters referred to in Section 5.11); provided, however, that if Latham & Watkins does not render such opinion or withdraws or modifies such opinion, this condition shall nonetheless be deemed satisfied if Cooley Godward LLP, counsel to Parent, renders such opinion to the Company; and

(d) a certificate executed on behalf of Parent by an executive officer of Parent, confirming that conditions set forth in Sections 7.1, 7.2, 7.4, 7.5, 7.7 and 7.8 and 7.9 have been duly satisfied.

7.7 LISTING. The shares of Parent Common Stock to be issued in the Merger shall have been approved for listing (subject to notice of issuance) on AMEX.

7.8 NO RESTRAINTS. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Merger by the Company shall have been issued by any court of competent jurisdiction and remain in effect, and there shall not be any Legal Requirement enacted or deemed applicable to the Merger that makes consummation of the Merger by the Company illegal.

7.9 NO GOVERNMENTAL LITIGATION. There shall not be pending or threatened any Legal Proceeding in which a Governmental Body is or is threatened to become a party or is otherwise involved, and neither Parent nor the Company shall have received any communication

from any Governmental Body in which such Governmental Body indicates the possibility of commencing any Legal Proceeding or taking any other action: (a) challenging or seeking to restrain or prohibit the consummation of the Merger or any of the other transactions contemplated by this Agreement; (b) relating to the Merger and seeking to obtain from the Company or any of its Subsidiaries, or Parent or any of its Subsidiaries, any damages or other relief that may be material to the Company and Parent, taken as a whole, following the Merger; (c) seeking to prohibit or limit in any material respect Parent's ability to vote, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of the Company; or (d) which would materially and adversely affect the right of the Company or Parent to own the assets or operate the business of Parent following the Merger.

8. TERMINATION

8.1 TERMINATION. This Agreement may be terminated prior to the Effective Time (whether before or after approval of the Merger by the Required Company Stockholder Vote and/or the Required Parent Shareholder Vote):

(a) by mutual written consent of Parent and the Company duly authorized by the boards of directors of Parent and the Company;

(b) by either Parent or the Company if the Merger shall not have been consummated by December 31, 1999; provided that the right to terminate this Agreement under this Section 8.1(b) shall not be available to any party if the failure to consummate the Merger is the result of willful breach of this Agreement by the party seeking to terminate this Agreement;

(c) by either Parent or the Company if a court of competent jurisdiction or other Governmental Body shall have issued a final and nonappealable order, decree or ruling, or shall have taken any other action, having the effect of permanently restraining, enjoining or otherwise prohibiting the Merger;

(d) by either Parent or the Company if (i) the Parent Shareholders' Meeting (including any adjournments thereof) shall have been held and completed and Parent's shareholders shall have taken a final vote on a proposal to approve and adopt this Agreement and approve the Merger and approve the Amended Articles, and (ii) this Agreement, the Merger and the Amended Articles shall not have been approved by the Required Parent Shareholder Vote; provided however, that Parent shall not be permitted to terminate this Agreement pursuant to this Section 8.1(d) if the failure of Parent's shareholders to approve this Agreement, the Merger or the Amended Articles is attributable to a failure on the part of Parent to perform any material obligation required to have been performed by Parent under this Agreement; provided further however, that Parent shall not be permitted to terminate this Agreement pursuant to this Section 8.1(d) unless Parent shall have paid to the Company any fee required to be paid to the Company pursuant to Section 8.3(b)(i);

(e) by either Parent or the Company if (i) the Company Stockholders' Meeting (including any adjournments thereof) shall have been held and completed and the Company's stockholders shall have taken a final vote on a proposal to approve and adopt this Agreement and approve the Merger, and (ii) this Agreement and the Merger shall not have been

approved by the Required Company Stockholder Vote; provided however, that the Company shall not be permitted to terminate this Agreement pursuant to this Section 8.1(e) if the failure of the Company's stockholders to approve this Agreement and the Merger is attributable to a failure on the part of the Company to perform any material obligation required to have been performed by the Company under this Agreement; provided further however, that the Company shall not be permitted to terminate this Agreement pursuant to this Section 8.1(e) unless the Company shall have paid to Parent any fee required to be paid to Parent pursuant to Section 8.3(b)(ii);

(f) by Parent if the total Merger Shares (as determined under Section 1.5(b)(iii)) would equal or exceed the total number of Parent Outstanding Shares;

(g) by (i) Parent (at any time prior to the adoption and approval of this Agreement and the Merger by the Required Company Stockholder Vote) if a Company Triggering Event shall have occurred, or (ii) the Company (at any time prior to the adoption and approval of this Agreement and the Merger by the Required Parent Shareholder Vote) if a Parent Triggering Event shall have occurred;

(h) by Parent if any of the Company's covenants contained in this Agreement shall have been breached or if any of the Company's representations and warranties contained in this Agreement shall have been inaccurate or breached whereby such breach or inaccuracy (after taking into account all such breaches and inaccuracies) shall have resulted in a Material Adverse Effect on the Company; provided, however, that Parent may not terminate this Agreement under this Section 8.1(h) on account of any such breach or inaccuracy that is curable by the Company unless the Company fails to cure such inaccuracy or breach within 15 days after receiving written notice from Parent of such inaccuracy or breach;

(i) by the Company if any of Parent's covenants contained in this Agreement shall have been breached or if any of Parent's representations and warranties contained in this Agreement shall have been inaccurate or breached whereby such breach or inaccuracy (after taking into account all such breaches and inaccuracies) shall have resulted in a Material Adverse Effect on Parent; provided, however, that the Company may not terminate this Agreement under this Section 8.1(i) on account of any such breach or inaccuracy that is curable by Parent unless Parent fails to cure such inaccuracy or breach within 15 days after receiving written notice from the Company of such inaccuracy or breach.

8.2 EFFECT OF TERMINATION. The termination of this Agreement shall be effected by the delivery by the party terminating this Agreement to each other party of a written notice of such termination, specifying the basis for such termination and the Section of this Agreement pursuant to which such termination is being effected. In the event this Agreement is terminated pursuant to Section 8.1, this Agreement shall be of no further force or effect; provided, however, that (i) this Section 8.2, Section 8.3 and Section 9 shall survive the termination of this Agreement and shall remain in full force and effect, and (ii) the termination of this Agreement shall not relieve any party from any liability for any inaccuracy in or breach of any representation, warranty or covenant contained in this Agreement.

8.3 EXPENSES; TERMINATION FEES.

(a) Except as set forth in this Section 8.3, all fees and expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such expenses, whether or not the Merger is consummated; provided, however, that (i) Parent and the Company shall share equally all fees and expenses, other than attorneys' fees, incurred in connection with the filing, printing and mailing of the Form S-4 Registration Statement and the Prospectus/Proxy Statement and any amendments or supplements thereto.

(b) In consideration of the substantial time, expense and forgoing other opportunities invested by the parties in connection with this Agreement and the transactions contemplated by this Agreement,

(i) In the event this Agreement is terminated by Parent or the Company pursuant to Section 8.1(d), by Parent pursuant to Section 8.1(f) or by the Company pursuant to Section 8.1(g)(ii), then, in either such case, Parent shall pay to the Company, in cash at the time specified in the next sentence, a nonrefundable fee in the amount of $1,000,000. In the case of termination of this Agreement by Parent pursuant to Section 8.1(d), the fee referred to in the preceding sentence shall be paid by Parent prior to such termination, and in the case of termination of this Agreement by the Company pursuant to Section 8.1(d) or Section 8.1(g)(ii), or by Parent pursuant to Section 8.1(f), the fee referred to in the preceding sentence shall be paid by Parent within two business days after such termination.

(ii) In the event this Agreement is terminated by Parent or the Company pursuant to Section 8.1(e) or by Parent pursuant to Section 8.1(g)(i), then the Company shall pay to Parent, in cash at the time specified in the next sentence, a nonrefundable fee in the amount of $1,000,000. In the case of termination of this Agreement by the Company pursuant to Section 8.1(e), the fee referred to in the preceding sentence shall be paid by the Company prior to such termination, and in the case of termination of this Agreement by Parent pursuant to Section 8.1(e) or Section 8.1(g)(i), the fee referred to in the preceding sentence shall be paid by the Company within two business days after such termination.

9. MISCELLANEOUS PROVISIONS

9.1 AMENDMENT. This Agreement may be amended with the approval of the respective boards of directors of the Company and Parent at any time (whether before or after the adoption and approval of this Agreement and the approval of the Merger by the stockholders of the Company); provided, however, that after any such adoption and approval of this Agreement and approval of the Merger by the Company's stockholders, no amendment shall be made which by law requires further approval of the stockholders of the Company without the further approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

9.2 WAIVER.

(a) No failure on the part of either party to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of either party in exercising

any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy.

(b) Neither party shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such party; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

9.3 NO SURVIVAL OF REPRESENTATIONS AND WARRANTIES. None of the representations and warranties contained in this Agreement or in any certificate delivered pursuant to this Agreement shall survive the Merger.

9.4 ENTIRE AGREEMENT; COUNTERPARTS. This Agreement and the other agreements referred to herein constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and thereof. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument

9.5 APPLICABLE LAW; JURISDICTION. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. In any action between the parties arising out of or relating to this Agreement or any of the transactions contemplated by this Agreement: (a) each of the parties irrevocably and unconditionally consents and submits to the exclusive jurisdiction and venue of the state and federal courts located in the State of California; (b) each of the parties irrevocably waives the right to trial by jury; and (c) each of the parties irrevocably consents to service of process by first class certified mail, return receipt requested, postage prepaid, to the address at which such party is to receive notice in accordance with Section 9.9.

9.6 DISCLOSURE SCHEDULES.

(a) The Company shall prepare and deliver to Parent concurrently herewith a Company Disclosure Schedule which has been duly executed on behalf of the Company by its President and which contains exceptions to the Company's representations and warranties made in Section 2 of this Agreement. The Company Disclosure Schedule shall be arranged in separate parts corresponding to the numbered and lettered sections contained in Section 2, and the information disclosed in any numbered or lettered part shall be deemed to relate to and to qualify the representations or warranties set forth in the corresponding numbered or lettered section in Section 2.

(b) Parent shall prepare and deliver to the Company concurrently herewith a Parent Disclosure Schedule which has been duly executed on behalf of Parent by its President and which contains exceptions to Parent's representations and warranties made in Section 3 of this Agreement. The Parent Disclosure Schedule shall be arranged in separate parts

corresponding to the numbered and lettered sections contained in Section 3, and the information disclosed in any numbered or lettered part shall be deemed to relate to and to qualify the representations or warranties set forth in the corresponding numbered or lettered section in Section 3.

(c) The Company Disclosure Schedule and the Parent Disclosure Schedule and the information, descriptions and disclosures contained therein will be deemed to be automatically disclosed in any other part of the Company Disclosure Schedule or the Parent Disclosure Schedule, as applicable, where a cross reference to such part is made or where the relevance of such information, descriptions or disclosures to such part is reasonably apparent.

9.7 ATTORNEYS' FEES. In any action at law or suit in equity to enforce this Agreement or the rights of any of the parties hereunder, the prevailing party in such action or suit shall be entitled to receive a reasonable sum for its attorneys' fees and all other reasonable costs and expenses incurred in such action or suit.

9.8 ASSIGNABILITY. This Agreement shall be binding upon, and shall be enforceable by and inure solely to the benefit of, the parties hereto and their respective successors and assigns; provided, however, that neither this Agreement nor any of Parent's rights or the Company's rights hereunder may be assigned by Parent or the Company, as applicable, without the prior written consent of the Company or Parent, as applicable, and any attempted assignment of this Agreement or any of such rights by the Company without such consent shall be void and of no effect. Nothing in this Agreement, express or implied, is intended to or shall confer upon any Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

9.9 NOTICES. Any notice or other communication required or permitted to be delivered to any party under this Agreement shall be in writing and shall be deemed properly delivered, given and received (a) when delivered by hand, or (b) after sent by registered mail or, by courier or express delivery service or by facsimile to the address or facsimile telephone number set forth beneath the name of such party below (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other parties hereto):

if to Parent:

Cypros Pharmaceutical Corporation
2714 Loker Avenue West
Carlsbad, CA 92008
FAX: (760) 929-7548
Attention: Chief Financial Officer

if to Merger Sub:

Cypros Acquisition Corporation
2714 Loker Avenue West
Carlsbad, CA 92008
FAX: (760) 929-7548
Attention: Secretary

if to the Company:

RiboGene, Inc.
26118 Research Road
Hayward, CA 94545
FAX: (510) 293-2596
Attention: Chief Executive Officer

9.10 SEVERABILITY. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereunder are not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereunder be consummated as originally contemplated to the fullest extent possible.

9.11 COOPERATION. Each of the Company and Parent agrees to cooperate fully with the other and to execute and deliver such further documents, certificates, agreements and instruments and to take such other actions as may be reasonably requested by the other party to evidence or reflect the transactions contemplated by this Agreement and to carry out the intent and purposes of this Agreement.

9.12 CONSTRUCTION.

(a) For purposes of this Agreement, whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; the feminine gender shall include the masculine and neuter genders; and the neuter gender shall include masculine and feminine genders.

(b) The parties hereto agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(c) As used in this Agreement, the words "include" and "including," and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words "without limitation."

(d) Except as otherwise indicated, all references in this Agreement to "Sections," "Exhibits" and "Schedules" are intended to refer to Sections of this Agreement and Exhibits or Schedules to this Agreement.

(e) The bold-faced headings contained in this Agreement are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first above written.

CYPROS PHARMACEUTICAL CORPORATION,
a California corporation

By: ----------
Name: ----------
Title: ----------

CYPROS ACQUISITION CORPORATION,
a Delaware corporation

By: ----------
Name: ----------
Title: ----------

RIBOGENE, INC.,
a Delaware corporation

By: ----------
Name: ----------
Title: ----------

EXHIBIT A

CERTAIN DEFINITIONS

For purposes of the Agreement (including this Exhibit A):

AGREEMENT. "Agreement" shall mean the Agreement and Plan of Reorganization to which this Exhibit A is attached, as it may be amended from time to time.

AMEX. "AMEX" shall mean the American Stock Exchange, Inc.

AMENDED ARTICLES. "Amended Articles" shall have the meaning ascribed thereto in Section 1.4(a).

APPLICABLE REGULATORY REQUIREMENTS. "Applicable Regulatory Requirements" shall have the meaning ascribed thereto in Section 2.20.

CCC. "CCC" shall mean the California Corporation Code.

CERTIFICATE OF MERGER. "Certificate of Merger" shall have the meaning ascribed thereto in Section 1.3.

CLOSING; CLOSING DATE. "Closing" and "Closing Date" shall have the meanings ascribed thereto in Section 1.3.

CODE. "Code" shall mean the Internal Revenue Code of 1986, as amended.

COMPANY ACQUISITION PROPOSAL. "Company Acquisition Proposal" shall mean any offer, proposal or inquiry (other than an offer or proposal by Parent) contemplating or otherwise relating to any Company Acquisition Transaction.

COMPANY ACQUISITION TRANSACTION. "Company Acquisition Transaction" with respect to the Company shall mean any transaction or series of transactions involving:

(a) any merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, tender offer, exchange offer or other similar transaction (i) in which the Company or any Company Subsidiary is a constituent company or involving the capital stock of the Company or any Company Subsidiary, (ii) in which a Person or "group" (as defined in the Exchange Act and the rules promulgated thereunder) of Persons directly or indirectly acquires the Company or any Company Subsidiary or more than 20% of the Company's or any Company Subsidiary's business or directly or indirectly acquires beneficial or record ownership of securities representing, or exchangeable for or convertible into, more than 20% of the outstanding securities of any class of voting securities of the Company or any Company Subsidiary, or (iii) in which the Company or any Company Subsidiary issues securities representing more than 20% of the outstanding securities of any class of voting securities of the Company or any Company Subsidiary;

(b) any sale, lease, exchange, transfer, license, acquisition or disposition of more than 20% of the assets of the Company or any Company Subsidiary or assets which generate more than 20% of the Company's revenue or 20% of the revenue of any Company Subsidiary; or

(c) any liquidation or dissolution of the Company or any Company Subsidiary; provided, however, that a Company Collaboration Agreement shall not be deemed to be a Parent Acquisition Transaction.

COMPANY COLLABORATION AGREEMENT. "Company Collaboration Agreement" shall mean any collaboration or other similar transaction with a pharmaceutical or biotechnology company, to the extent such collaboration or other similar transaction relates primarily to the licensing of technology relating to the Company's drug discovery business.

COMPANY COMMON STOCK. "Company Common Stock" shall mean the Common Stock, $0.01 par value per share, of the Company.

COMPANY DISCLOSURE SCHEDULE. "Company Disclosure Schedule" shall mean the Company Disclosure Schedule that has been prepared by the Company with respect to the representations and warranties of the Company made in Section 2 in accordance with the requirements of Section 9.6(a) of the Agreement and that has been delivered by the Company to Parent on the date of the Agreement and signed by the President of the Company.

COMPANY LEASES. "Company Leases" shall have the meaning ascribed thereto in Section 2.16.

COMPANY OPTIONS. "Company Options" shall have the meaning ascribed thereto in Section 2.3(b).

COMPANY OUTSTANDING SHARES. "Company Outstanding Shares" shall have the meaning ascribed thereto in Section 1.5(b)(i).

COMPANY PREFERRED STOCK. "Company Preferred Stock" shall mean the Preferred Stock, $0.001 par value per share, of the Company.

COMPANY PROPRIETARY ASSETS. "Company Proprietary Assets" shall have the meaning ascribed thereto in Section 2.7.

COMPANY RETURNS. "Company Returns" shall have the meaning ascribed thereto in Section 2.11(a).

COMPANY RIGHTS PLAN. "Company Rights Plan" shall mean that certain Rights Agreement dated as of July 1, 1999, by and between the Company and American Stock Transfer & Trust Company as Rights Agent.

COMPANY SEC DOCUMENTS. "Company SEC Documents" shall have the meaning ascribed thereto in Section 2.4(a).

COMPANY STOCKHOLDERS' MEETING. "Company Stockholders" Meeting shall have the meaning ascribed thereto in Section 5.2.

COMPANY SUBSIDIARIES. "Company Subsidiaries" shall have the meaning ascribed thereto n Section 2.1(a).

COMPANY SUPERIOR OFFER. "Company Superior Offer" shall mean an unsolicited, bona fide written offer made by a third party relating to any Company Acquisition Transaction on terms that the board of directors of the Company determines, in its reasonable judgment, based upon the advice of its financial advisor and upon consultation with its counsel, to be more favorable to the Company's stockholders than the terms of the Merger; provided, however, that any such offer shall not be deemed to be a "Company Superior Offer" if any financing required to consummate the transaction contemplated by such offer is not committed (in a writing signed by a Person that the board of directors of the Company reasonably believes has the financial ability to meet such commitment) and the board of directors of the Company does not reasonably believe that such financing is likely to be obtained by such third party on a timely basis.

COMPANY TRIGGERING EVENT. A "Company Triggering Event" shall be deemed to have occurred if: (i) the board of directors of the Company shall have failed to unanimously recommend or shall for any reason have withdrawn or shall have amended or modified in a manner adverse to Parent its unanimous recommendation in favor of, the adoption and approval of the Agreement or the approval of the Merger; (ii) the Company shall have failed to include in the Prospectus/Proxy Statement the unanimous recommendation of the board of directors of the Company in favor of the adoption and approval of the Agreement and the approval of the Merger; (iii) the board of directors of the Company fails to reaffirm its unanimous recommendation in favor of the adoption and approval of the Agreement and the approval of the Merger within ten business days after Parent requests in writing that such unanimous recommendation be reaffirmed; (iv) the board of directors of the Company shall have approved, endorsed or recommended any Company Acquisition Transaction; (v) the Company shall have entered into any letter of intent or similar document or any Contract relating to any Company Acquisition Transaction; (vi) the Company shall have failed to hold the Company Stockholders' Meeting as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act; (vii) a tender or exchange offer relating to securities of the Company shall have been commenced and the Company shall not have sent to its securityholders, within ten business days after the commencement of such tender or exchange offer, a statement disclosing that the Company recommends rejection of such tender or exchange offer; (viii) a Company Acquisition Transaction is publicly announced, and the Company fails to issue a press release announcing its opposition to such Company Acquisition Transaction within ten business days after such Company Acquisition Transaction is announced; (ix) the Company breaches or is deemed to have breached any of its obligations under Section 4.3 of the Agreement, or (x) a Person or group (as defined in the Exchange Act and the rules promulgated thereunder) shall have acquired more than fifty percent (50%) of the Company's voting securities (excluding Persons or groups that as of the date of this Agreement, hold more than

fifty percent (50%) of the Company's voting securities or that may be deemed to have acquired such percentage upon execution of the Voting Agreements).

COMPANY UNAUDITED INTERIM BALANCE SHEET. "Company Unaudited Interim Balance Sheet" shall have the meaning ascribed thereto in Section 2.4(c).

COMPANY WARRANTS. "Company Warrants" shall mean the outstanding warrants to purchase Company Common Stock.

CONFIDENTIAL INFORMATION. "Confidential Information" shall have the meanings ascribed thereto in Section 2.7(g) and in Section 3.7(g), as the case may be.

CONSENT. "Consent" shall mean any approval, consent, ratification, permission, waiver or authorization (including any Governmental Authorization) required by any party to be obtained under any Contract or Legal Requirement in connection with the transactions contemplated by this Agreement.

CONSTITUENT COMPONENT. "Constituent Component" shall have the meaning ascribed thereto in Section 2.21.

CONTRACT. "Contract" shall mean any written, oral or other agreement, contract, subcontract, lease, understanding, instrument, note, option, warranty, purchase order, license, sublicense, insurance policy, benefit plan or legally binding commitment or undertaking of any nature.

DGCL. "DGCL" shall mean the Delaware General Corporation Law.

EFFECTIVE TIME. "Effective Time" shall have the meaning ascribed thereto in Section 1.3.

ENCUMBRANCE. "Encumbrance" shall mean any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, claim, infringement, interference, option, right of first refusal, preemptive right, community property interest or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the receipt of any income derived from any asset, any restriction on the use of any asset and any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

ENTITY. "Entity" shall mean any corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any company limited by shares, limited liability company or joint stock company), firm, society or other enterprise, association, organization or entity.

ENVIRONMENTAL LAW. "Environmental Law" shall have the meaning ascribed thereto in Section 2.17.

ERISA. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

ESPP. "ESPP" shall have the meaning ascribed thereto in Section 1.5(a)(i).

EXCHANGE ACT. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

EXCHANGE AGENT. "Exchange Agent" shall have the meaning ascribed thereto in Section 1.9(a).

EXCHANGE FUND. "Exchange Fund" shall have the meaning ascribed thereto in Section 1.9(a).

EXCHANGE RATIO. "Exchange Ratio" shall have the meaning ascribed thereto in Section 1.5(b)(ii).

EXISTING POLICY. "Existing Policy" shall have the meaning ascribed thereto in Section 5.7(b).

FDA; FDA, ETC. "FDA" and FDA, etc." shall each have the meaning ascribed thereto in Section 2.22(a).

FORM S-4 REGISTRATION STATEMENT. "Form S-4 Registration Statement" shall mean the registration statement on Form S-4 to be filed with the SEC by Parent pursuant to Section 5.1 in connection with issuance of Parent Common Stock in the Merger, as said registration statement may be amended prior to the time it is declared effective by the SEC.

GOVERNMENTAL AUTHORIZATION. "Governmental Authorization" shall mean any: (a) permit, license, certificate, franchise, permission, variance, clearance, registration, qualification or authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement; or (b) right under any Contract with any Governmental Body.

GOVERNMENTAL BODY. "Governmental Body" shall mean any: (a) nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; or (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, ministry, fund, foundation, center, organization, unit, body or Entity and any court or other tribunal).

INDEMNIFIED PERSONS. "Indemnified Persons" shall have the meaning ascribed thereto in Section 5.7.

LEGAL PROCEEDING. "Legal Proceeding" shall mean any action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate proceeding), hearing, inquiry, audit, examination or investigation commenced, brought, conducted or heard by or before, or otherwise involving, any court or other Governmental Body or any arbitrator or arbitration panel.

LEGAL REQUIREMENT. "Legal Requirement" shall mean any federal, state, local, municipal, foreign or other law, statute, constitution, principle of common law, resolution, ordinance, code, edict, decree, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Body (or under the authority of AMEX).

LIABILITIES. "Liabilities" or "Liability" shall mean any liability or obligation of any kind or nature, secured or unsecured (whether absolute, accrued, contingent or otherwise, and whether due or to become due).

MATERIAL ADVERSE EFFECT. "Material Adverse Effect" shall mean, with respect to any Person, any event, circumstance, change or effect that is or could reasonably be expected to be materially adverse to the business, operations, properties, condition (financial or otherwise) or assets of such Person and its subsidiaries taken as a whole. In no event shall any of the following constitute a Material Adverse Effect: (i) a change in the trading prices of either the Company's or Parent's equity securities between the date hereof and the Effective Time, in and of itself; (ii) conditions, events, circumstances, changes or effects generally affecting the industry in which either the Company or Parent operates or arising from changes in general business or economic conditions; (iii) conditions, events, circumstances, changes or effects directly attributable to out-of-pocket fees and expenses (including without limitation legal, accounting and financial consulting fees and expenses) incurred in connection with the transactions contemplated by this Agreement; (iv) any conditions, events, circumstances, changes or effects resulting from any change in law or generally accepted accounting principles, which affect generally entities such as Parent or the Company; (v) any conditions, events, circumstances, changes or effects (including without limitation, delays in customer orders, a reduction in sales, a disruption in supplier, distributor or similar relationships or a loss of employees) resulting from the announcement or pendency of any of the transactions contemplated by this Agreement; or (vi) any conditions, events, circumstances, changes or effects resulting from compliance by the Company or Parent with, or the taking of any action contemplated by, the terms of this Agreement.

MATERIAL COMPANY CONTRACT. "Material Company Contract" shall have the meaning ascribed thereto in Section 2.8(a).

MATERIAL PARENT CONTRACT. "Material Parent Contract shall have the meaning ascribed thereto in Section 3.8(a).

MATERIALS OF ENVIRONMENTAL CONCERN. "Materials of Environmental Concern" shall have the meaning ascribed thereto in Section 2.17.

MERGER SHARES. "Merger Shares" shall have the meaning ascribed thereto in Section 1.5(b)(iii).

NASDAQ. "Nasdaq" shall mean the Nasdaq Stock Market, Inc.

MERGER. "Merger" shall have the meaning ascribed thereto in Recital A of this Agreement.

PARENT ACQUISITION PROPOSAL. "Parent Acquisition Proposal" shall mean any offer, proposal or inquiry (other than an offer or proposal by the Company) contemplating or otherwise relating to any Parent Acquisition Transaction.

PARENT ACQUISITION TRANSACTION. "Parent Acquisition Transaction" with respect to Parent shall mean any transaction or series of transactions involving:

(a) any merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, tender offer, exchange offer or other similar transaction (i) in which Parent or any Parent Subsidiary is a constituent company or involving the capital stock of Parent or any Parent Subsidiary, (ii) in which a Person or "group" (as defined in the Exchange Act and the rules promulgated thereunder) of Persons directly or indirectly acquires Parent or any Parent Subsidiary or more than 20% of Parent's or any Parent Subsidiary's business or directly or indirectly acquires beneficial or record ownership of securities representing, or exchangeable for or convertible into, more than 20% of the outstanding securities of any class of voting securities of Parent or any Parent Subsidiary, or (iii) in which Parent or any Parent Subsidiary issues securities representing more than 20% of the outstanding securities of any class of voting securities of Parent or any Parent Subsidiary;

(b) any sale, lease, exchange, transfer, license, acquisition or disposition of more than 20% of the assets of Parent or any Parent Subsidiary or assets which generate more than 20% of Parent's revenue or 20% of the revenue of any Parent Subsidiary; or

(c) any liquidation or dissolution of Parent or any Parent Subsidiary;

provided, however, that a Parent Collaboration Agreement shall not be deemed to be a Parent Acquisition Transaction.

PARENT COLLABORATION AGREEMENT. "Parent Collaboration Agreement" shall mean any collaboration or other similar transaction with a pharmaceutical or biotechnology company, to the extent such collaboration or other similar transaction relates primarily to the licensing of technology relating to Parent's drug discovery or drug development (pre-clinical or clinical) business.

PARENT COMMON STOCK. "Parent Common Stock" shall mean the Common Stock, no par value per share, of Parent.

PARENT DISCLOSURE SCHEDULE. "Parent Disclosure Schedule" shall mean the Parent Disclosure Schedule that has been prepared by Parent with respect to the representations and warranties of Parent made in Section 3 in accordance with the requirements of Section 9.6(b) of the Agreement and that has been delivered by the Parent to the Company on the date of the Agreement and signed by the President of Parent.

PARENT LEASES. "Parent Leases" shall have the meaning ascribed thereto in Section 3.16.

PARENT OPTION PLAN AMENDMENT. "Parent Option Plan Amendment" shall have the meaning ascribed thereto in Section 4.5(b)(ii).

PARENT OPTIONS. "Parent Options" shall mean outstanding stock options granted by Parent pursuant to Parent's stock option plans.

PARENT OUTSTANDING SHARES. "Parent Outstanding Shares" shall have the meaning ascribed thereto in Section 1.5(b)(iv).

PARENT PREFERRED STOCK. "Parent Preferred Stock" shall mean the Series A Preferred Stock, no par value per share of Parent.

PARENT PROPOSAL. "Parent Proposal" shall have the meaning ascribed thereto in Section 5.3(a).

PARENT PROPRIETARY ASSETS. "Parent Proprietary Assets" shall have the meaning ascribed thereto in Section 3.7(a).

PARENT RETURNS. "Parent Returns" shall have the meaning ascribed thereto in Section 3.11(a).

PARENT SEC DOCUMENTS. "Parent SEC Documents shall have the meaning ascribed thereto in Section 3.4(a).

PARENT SHAREHOLDERS' MEETING. "Parent Shareholders' Meeting" shall have the meaning ascribed thereto in Section 5.3.

PARENT SUBSIDIARIES. "Parent Subsidiaries" shall have the meaning ascribed thereto in Section 3.1.

PARENT SUPERIOR OFFER. "Parent Superior Offer" shall mean an unsolicited, bona fide written offer made by a third party relating to any Parent Acquisition Transaction on terms that the board of directors of Parent determines, in its reasonable judgment, based upon the advice of its financial advisor and upon consultation with its counsel, to be more favorable to Parent's stockholders than the terms of the Merger; provided, however, that any such offer shall not be deemed to be a "Parent Superior Offer" if (1) any financing required to consummate the transaction contemplated by such offer is not committed (in a writing signed by a Person that the board of directors of Parent reasonably believes has the financial ability to meet such commitment) and the board of directors of Parent does not reasonably believe that such financing is likely to be obtained by such third party on a timely basis.

PARENT TRIGGERING EVENT. A "Parent Triggering Event" shall be deemed to have occurred if: (i) the board of directors of Parent shall have failed to unanimously recommend or shall for any reason have withdrawn or shall have amended or modified in a manner adverse to Parent its unanimous recommendation in favor of, the adoption and approval of the Agreement or the approval of the Merger; (ii) Parent shall have failed to include in the Prospectus/Proxy Statement the unanimous recommendation of the board of directors of Parent in favor of the adoption and approval of the Agreement and the approval of the Merger; (iii) the board of directors of Parent fails to reaffirm its unanimous recommendation in favor of the adoption and approval of the Agreement and the approval of the Merger within ten business days after Parent requests in writing that such unanimous recommendation be reaffirmed; (iv) the board of

directors of Parent shall have approved, endorsed or recommended any Parent Acquisition Transaction; (v) Parent shall have entered into any letter of intent or similar document or any Contract relating to any Parent Acquisition Transaction; (vi) Parent shall have failed to hold Parent Shareholders' Meeting as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act; (vii) a tender or exchange offer relating to securities of Parent shall have been commenced and Parent shall not have sent to its securityholders, within ten business days after the commencement of such tender or exchange offer, a statement disclosing that Parent recommends rejection of such tender or exchange offer; (viii) a Parent Acquisition Transaction is publicly announced, and Parent fails to issue a press release announcing its opposition to such Parent Acquisition Transaction within ten business days after such Parent Acquisition Transaction is announced; (ix) Parent breaches or is deemed to have breached any of its obligations under Section 4.6 of the Agreement, or (x) a Person or group (as defined in the Exchange Act and the rules promulgated thereunder) shall have acquired more than fifty percent (50%) of Parent's voting securities (excluding Persons or groups that as of the date of this Agreement, hold more than fifty percent (50%) of Parent's voting securities or that may be deemed to have acquired such percentage upon execution of the Voting Agreements).

PARENT UNAUDITED INTERIM BALANCE SHEET. "Parent Unaudited Interim Balance Sheet" shall have the meaning ascribed thereto in Section 3.4(c).

PARENT WARRANTS. "Parent Warrants" shall mean the outstanding warrants to purchase Parent Common Stock.

PERSON. "Person" shall mean any individual, Entity or Governmental Body.

PRE-CLOSING PERIOD. "Pre-Closing Period" shall have the meaning ascribed thereto in Section 4.1.

PROPRIETARY ASSET. "Proprietary Asset" shall mean any: (a) patent, patent application, trademark (whether registered or unregistered), trademark application, trade name, fictitious business name, service mark (whether registered or unregistered), service mark application, copyright (whether registered or unregistered), copyright application, maskwork, maskwork application, trade secret, know-how, customer list, franchise, system, computer software, computer program, source code, algorithm, invention, design, blueprint, engineering drawing, proprietary product, technology, proprietary right or other intellectual property right or intangible asset; and (b) right to use or exploit any of the foregoing.

PROSPECTUS/PROXY STATEMENT. "Prospectus/Proxy Statement" shall mean the proxy statement to be sent to the Company's stockholders in connection with the Company Stockholders' Meeting.

REPRESENTATIVES. "Representatives" shall mean officers, directors, employees, agents, attorneys, accountants, advisors, affiliates, Subsidiaries and representatives.

REQUIRED COMPANY STOCKHOLDER VOTE. "Required Company Stockholder Vote" shall have the meaning ascribed thereto in Section 2.23.

REQUIRED PARENT SHAREHOLDER VOTE. "Required Parent Shareholder Vote" shall have the meaning ascribed thereto in Section 3.23.

S-4 REGISTRATION STATEMENT. "S-4 Registration Statement" shall have the meaning ascribed thereto in Section 2.27(c).

SEC. "SEC" shall mean the United States Securities and Exchange Commission.

SECURITIES ACT. "Securities Act" shall mean the Securities Act of 1933, as amended.

SIGNING DATE CLOSING PRICE. "Signing Date Closing Price" shall have the meaning ascribed thereto in Section 1.5(b)(iii).

SUBSIDIARY. An entity shall be deemed to be a "Subsidiary" of another Person if such Person directly or indirectly owns, beneficially or of record, (a) an amount of voting securities of other interests in such Entity that is sufficient to enable such Person to elect at leased a majority of the members of such Entity's board of directors or other governing body, or (b) at least 50% of the outstanding equity or financial interests or such Entity.

SURVIVING CORPORATION. "Surviving Corporation" shall have the meaning ascribed thereto in Section 1.1.

TAX. "Tax" shall mean any tax (including any income tax, franchise tax, capital gains tax, gross receipts tax, value-added tax, surtax, estimated tax, unemployment tax, national health insurance tax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business tax, withholding tax or payroll tax), levy, assessment, tariff, duty (including any customs duty), deficiency or fee, and any related charge or amount (including any fine, penalty or interest), imposed, assessed or collected by or under the authority of any Governmental Body.

TAX RETURN. "Tax Return" shall mean any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Legal Requirement relating to any Tax.

THIRD PARTY PROPRIETARY ASSETS. "Third Party Proprietary Assets" shall have the meaning ascribed thereto in Section 2.7(b).

VOTING AGREEMENT. "Voting Agreement" shall have the meaning ascribed thereto in Recital D.

EXHIBIT B

OFFICERS AND DIRECTORS OF PARENT

OFFICERS	DIRECTORS
Charles J. Casamento, President and Chief Executive Officer	Robert F. Allnutt
Timothy E. Morris, Vice President, Finance and Administration and Chief Financial Officer and Assistant Secretary	Digby W. Barrios
	Charles J. Casamento
	Paul J. Marangos
	Frank J. Sasinowski
	Jon S. Saxe
	Roger Stoll
	Virgil Thompson
	Robert A. Vukovich

OFFICERS AND DIRECTORS OF SURVIVING CORPORATION

OFFICERS	DIRECTORS
Charles J. Casamento, President and Chief Executive Officer	Robert F. Allnutt
Timothy E. Morris, Vice President, Finance and Administration and Chief Financial Officer and Assistant Secretary	Digby W. Barrios
	Charles J. Casamento
	Paul J. Marangos
	Frank J. Sasinowski
	Jon S. Saxe
	Roger Stoll
	Virgil Thompson
	Robert A. Vukovich

EXHIBIT C

FORM OF AMENDED AND RESTATED ARTICLES OF INCORPORATION OF PARENT

EXHIBIT D

FORM OF AMENDED BYLAWS OF PARENT

EXHIBIT E-1

FORM OF VOTING AGREEMENT

EXHIBIT E-2

FORM OF WAIVER AND VOTING AGREEMENT

EXHIBIT E-3

FORM OF VOTING AGREEMENT

EXHIBIT F

FORM OF AFFILIATE AGREEMENT

EXHIBIT G

COMPANY CONSENTS

EXHIBIT H

CHARLES J. CASAMENTO EMPLOYMENT AGREEMENT

EXHIBIT I-1

FORM OF PAUL J. MARANGOS SEPARATION AND CONSULTING AGREEMENT

EXHIBIT I-2

FORM OF PAUL J. MARANGOS EXECUTIVE SEVERANCE BENEFITS AGREEMENT

EXHIBIT J

PARENT CONSENTS

EXHIBIT 10.1

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY SQUARE BRACKETS, IS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 406 OF THE SECURITIES ACT OF 1933, AS AMENDED.

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING ("MOU") is entered into as of the 26th day of January, 2000 (the "EFFECTIVE DATE") by and between QUESTCOR PHARMACEUTICALS, INC., a California corporation ("QUESTCOR"), and DAINIPPON PHARMACEUTICAL CO., LTD. ("DAINIPPON"), a corporation organized under the laws of Japan.

RECITALS

A. Dainippon and Questcor (formerly, RiboGene, Inc.) are parties to a research agreement dated January 27, 1998 (the "RESEARCH AGREEMENT") for the discovery of compounds which are active in certain Questcor Assays (as defined in Exhibit 6.2), and the parties wish to terminate the Research Agreement on mutually agreed upon terms.

B. In connection with the termination of the Research Agreement, Dainippon desires to acquire certain rights in addition to the rights and licenses granted under the license agreement dated January 27, 1998 (the "LICENSE AGREEMENT"); and

C. The parties wish to terminate the License Agreement and enter into a new license agreement as provided in this MoU.

AGREEMENT

1. LICENSE GRANT

Subject to the terms of this MoU, Questcor hereby grants Dainippon an exclusive right and license, with the right to sublicense, under Licensed Technology, to research, develop, make, have made, use and sell Products in the Territory.

Exhibit 1 hereto shall list all Licensed Patents existing as of the Effective Date, updated from time to time to include new Licensed Patents. Dainippon covenants and agrees that it will not use, directly or indirectly, the Licensed Compounds or the Licensed Technology for any purpose other than researching, developing, making, having made, using or selling Products in the Territory under this MoU and the License Agreement.

For the avoidance of doubt, the rights and licenses granted to Dainippon under this MoU shall not include any compounds screened or results generated in the course of the screening of compounds provided to Questcor by ArQule, Pharmacopeia or EnzyMed under separate agreements.

2. COMMERCIAL TERMS

2.1 LICENSE FEE.

In consideration of the license granted in Section 1, Dainippon shall pay to Questcor two million U.S. dollars (US$ 2,000,000.00) (the "LICENSE FEE"), less any applicable withholding tax not exceeding 10% of the License Fee. The License Fee shall be due on the Effective Date and payable within thirty (30) days from the Effective Date.

2.2 DEVELOPMENT MILESTONES.

Section 5.1 of the License Agreement is hereby deleted in its entirety and replaced with the following:

(a) Dainippon shall pay to Questcor the following amounts in the course of the development of each Questcor Product:

[*]

(b) Dainippon shall pay to Questcor [*] of the amounts set forth in subsection (a) above in the course of the development of each Derivative Questcor Product.

(c) Dainippon shall pay to Questcor [*] of the amounts set forth in subsection (a) above in the course of the development of each Non-Antibacterial Questcor Product and each Dainippon Product.

(d) Each milestone payment shall be made for each Product only once regardless of any substitution of a Licensed Back-up Compound for a Licensed Compound and any consequent repetition of a milestone event. Any withholding tax levied at source relating to the milestone payments payable to Questcor shall be borne by Dainippon. Questcor shall reasonably assist Dainippon with respect to the payment of the tax.

2.3 ROYALTIES.

Section 5.2 (a) of the License Agreement is hereby deleted in its entirety and replaced with the following:

(a) Dainippon shall pay to Questcor a royalty on Net Sales of each Questcor Product as follows:

Royalty Rate in Percent (%)	Payable on portion of annual Net Sales (in U.S. $millions)

[*]

(b) Dainippon shall pay to Questcor [*] of the royalties set forth in subsection (a) above in the course of the sale of each Derivative Questcor Product.

[ ] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY SQUARE BRACKETS, IS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 406 OF THE SECURITIES ACT OF 1933, AS AMENDED.

(c) Dainippon shall pay to Questcor [*] of the royalties set forth in subsection (a) above in the course of the sale of each Non-Antibacterial Questcor Product and each Dainippon Product.

3. TECHNOLOGY TRANSFER

3.1 Questcor shall use commercially reasonable best efforts to transfer to Dainippon within thirty (30) days from the Effective Date the biological and chemical materials and the information listed in Exhibit 3.1.

3.2 The parties shall share in equal parts the direct and indirect costs actually incurred by Questcor in connection with the transfer of the technology as provided in Section 3.1; provided, however, that Dainippon shall have no obligation to pay more than forty thousand U.S. dollars (US$ 40,000.00) of such costs. Questcor shall provide Dainippon with an invoice of Dainippon's shared portion of such costs and details of such costs, which invoiced amount shall be due and payable without deductions within thirty (30) days from the date of invoice.

4. TERMINATION OF RESEARCH AGREEMENT

4.1 The Research Agreement is hereby terminated and of no further force and effect, except as provided in Section 6.2 of this MoU, and except that Section 3.1 (other than (c)(iv)), Article 5 (Patent Prosecution and Defense) (except as amended by Section 6.3 of this MoU), 7 (Representation and Warranties), 8 (Indemnification), and 9 (Confidentiality) of the Research Agreement shall survive.

4.2 Questcor shall have no further obligation to conduct research activities under the Research Agreement, and Dainippon shall have no obligation to pay the installment of [*] for the third year of the Research Term (as defined in the Research Agreement) and to pay any and all costs of the full-time visiting research scientists of Dainippon incurred under Section 2.4 of the Research Agreement.

5. APPLICABILITY AND RENEGOTIATION OF THE LICENSE AGREEMENT

5.1 Except to the extent modified by the terms of this MoU, the terms of the License Agreement shall continue to apply, including, without limitation, Article 3 of the License Agreement, until a new license agreement is executed as referred to in Section 5.2 below.

5.2 Promptly after the Effective Date, the parties shall renegotiate certain terms of the License Agreement. The parties shall make reasonable efforts to execute on or prior to February 29, 2000 (or such later date as mutually agreed by the parties) a new license agreement incorporating the terms contained in this MoU and such terms as the parties have agreed to amend in the course of the renegotiation of the License Agreement.

[ ] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY SQUARE BRACKETS, IS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 406 OF THE SECURITIES ACT OF 1933, AS AMENDED.

6. MISCELLANEOUS

6.1 BINDING MOU.

This MoU is a binding agreement by and between the parties and enforceable against each of the parties in accordance with its terms.

6.2 DEFINITIONS.

When used in this MoU, each of the terms listed in Exhibit 6.2 shall have the meaning as defined therein. The defined terms of this MoU are deemed to amend the corresponding terms defined in the License Agreement and the Research Agreement. Any capitalized terms not defined in Exhibit 6.2 or in this MoU shall have the meaning as defined in the License Agreement. The defined terms of Article 1 of the Research Agreement which are not defined in Exhibit 6.2 or in this MoU shall survive to the extent they are used or referenced in this MoU or the License Agreement.

6.3 PATENT COSTS

Dainippon shall bear the costs relating to the filing, prosecution and maintenance of the Licensed Patents, provided that Dainippon may at its own discretion decide to or not to file, prosecute, maintain and abandon the Licensed Patents in any country or territory, and provided further, that prior to abandoning the filing, prosecution or maintenance of part or all of a Licensed Patent, Dainippon shall give Questcor sixty (60) days' notice before any relevant deadline, and Questcor shall have the right to pursue, at its own expense, the filing, prosecution and maintenance of such Licensed Patent.

6.4 AMENDMENT.

No amendment or modification hereof shall be valid or binding upon the parties unless made in writing and signed by both parties.

6.5 CONSTRUCTION OF MOU AND CHOICE OF LAW; RESOLUTION OF DISPUTES.

(a) This MoU and its terms and conditions shall be governed exclusively by and construed according to the laws of California, U.S.A., excluding its choice of law provisions and also excluding the United Nations Convention on Contracts for the International Sale of Goods. The official text of the MoU and any notices given or accounts or statements required hereby shall be in English.

(b) All disputes which may arise between the parties hereto in relation to the interpretation or administration of this MoU shall be resolved by the agreement of the Chief Executive Officers or the Presidents of the respective parties.

(c) Any disputes which cannot be resolved in this manner shall be finally settled by arbitration in accordance with the Conciliation and Arbitration Rules of the International

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Chamber of Commerce. The arbitration shall be held in San Francisco. The award rendered by the arbitration shall in any case be final and binding upon the parties hereto.

6.6 FORCE MAJEURE

Any delays in performance by any party under this MoU shall not be considered a breach of this MoU if and to the extent caused by occurrences beyond the reasonable control of the party affected, including but not limited to acts of God, embargoes, governmental restrictions, strikes or other concerted acts of workers, fire, flood, explosion, riots, wars, civil disorder, rebellion or sabotage. The party suffering such occurrence shall immediately notify the other party as soon as practicable and any time for performance hereunder shall be extended by the actual time of delay caused by the occurrence.

6.7 SEVERABILITY.

If any term, condition or provision of this Agreement is held to be unenforceable for any reason, it shall, if possible, be interpreted rather than voided, in order to achieve the intent of the parties to this Agreement to the extent possible. In any event, all other terms, conditions and provisions of this Agreement shall be deemed valid and enforceable to the full extent.

6.8 PUBLICITY.

Within five (5) business days from the Effective Date, the parties shall agree on a press release concerning this MoU. Except for that press release, or as required by law, no party shall originate any publication, news release or other public announcement, written or oral, whether in the public press, or stockholders' reports, or otherwise, relating to the existence of or the performance under this MoU, without the prior written approval of the other party, which approval shall not be unreasonably withheld, but in no case shall be withheld for longer than fifteen (15) days.

6.9 COUNTERPARTS.

This Agreement may be executed in two or more counterparts, each of which shall be an original and all of which shall constitute together the same document.

6.10 ENTIRE AGREEMENT.

This MoU, the License Agreement, and any and all Exhibits referred to herein or therein embody the entire understanding of the parties with respect to the subject matter hereof and shall supersede all previous communications, representations or understandings, either oral or written, between the parties relating to the subject matter hereof.

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IN WITNESS WHEREOF, both Dainippon and Questcor have executed this MoU, in duplicate originals, by their respective officers hereunto duly authorized, as of the day and year hereinabove written.

QUESTCOR PHARMACEUTICALS, INC.	DAINIPPON PHARMACEUTICAL CO., LTD.
By:	By:
Name: Charles J. Casamento	Name: Kenjiro Miyatake
Title: Chairman, President and Chief Executive Officer	Title: President

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EXHIBIT 1

LICENSED PATENTS

[*]

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EXHIBIT 3.1

TECHNOLOGY TRANSFER PROGRAM

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EXHIBIT 6.2

DEFINITIONS

"DAINIPPON PRODUCT" shall mean any Product containing a Dainippon Compound.

"DERIVATIVE QUESTCOR PRODUCT" shall mean any Product containing a Derivative Questcor Program Compound.

"LICENSED BACK-UP COMPOUND" shall mean a Licensed Compound which is in the same chemical class as a Licensed Compound, and which is developed to replace a Licensed Compound whose development has been discontinued.

"LICENSED COMPOUND" shall mean:

a) any compounds from the Questcor library which have been shown to be active in Questcor Assays;

b) any compounds designed or synthesized by Questcor wholly or in part in the course of the Research Program;

(each compound falling within the categories a) through b) being a "QUESTCOR PROGRAM COMPOUND")

c) any compounds claimed in a Licensed Patent;

(each compound falling within the categories a) through c) above being a "QUESTCOR COMPOUND")

d) any analogs or derivatives of compounds falling within (a) or (b) (each a "DERIVATIVE QUESTCOR PROGRAM COMPOUND");

e) any compounds tested in Questcor Assays under this MoU and with activity in Questcor Assays, other than those falling within (a) through (d) above (each a "DAINIPPON COMPOUND"). For avoidance of doubt, the parties agree that any compounds which Dainippon has discovered using assays other than Questcor Assays and develops on the basis of activity other than Targets shall not be included in "Dainippon Compound".

"LICENSED PATENT" shall mean any patent claiming inventions or discoveries within the Licensed Technology made prior to termination of the Research Agreement, including, without limitation, any substitutions, extensions, reissues, renewals, supplementary protection certificates and inventors' certificates, which have not been held invalid or unenforceable by a non-appealable or non-appealed decision of a court of competent jurisdiction, and any patent applications claiming inventions or discoveries within the Licensed Technology made prior to termination of the Research Agreement, including, without limitation, any provisionals, divisionals, continuations, continuations-in-part.

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"LICENSED TECHNOLOGY" shall mean RiboGene Technology and Collaboration Technology (both as defined in the Research Agreement).

"PRODUCT" shall mean any pharmaceutical product, including all formulations, line extensions or modes of administration thereof, which contains a Licensed Compound as an active ingredient.

"QUESTCOR ASSAYS" shall mean any Target specific assays.

"NON-ANTIBACTERIAL QUESTCOR PRODUCT" shall mean any Product containing a Questcor Program Compound developed or sold for uses other than therapeutic treatment of bacterial infections in humans.

"QUESTCOR PRODUCT" shall mean any Product containing a Questcor Compound.

"TARGET(s)" shall mean ppGpp and Deformylase.

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EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-81243), pertaining to the 1992 Stock Option Plan and the 1993 Non-Employee Directors' Equity Incentive Plan, and in the Registration Statements on Form S-3 (Nos. 333-25661, 333-32159, 333-23085, 333-17501 and 333-03507) of our report dated February 14, 2000 with respect to the consolidated financial statements of Questcor Pharmaceuticals, Inc. (formerly Cypros Pharmaceutical Corporation) included in this Annual Report (Form 10-K) for the five month period ended December 31, 1999.

Our audits also included the consolidated financial statement schedule of Questcor Pharmaceuticals, Inc. listed in Item 14(a). This schedule is the responsibility of Questcor's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Palo Alto, California
March 28, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

5-MOS	
DEC-31-1999	
DEC-31-1999	
	10,912
	10,787
	1,919
	30
	176
	24,176
	4,030
	(1,178)
	32,221
	7,233
	6,281
	0
	5,081
	65,423
	(51,797)
	32,221
	624
	956
	500
	500
	21,801
	0
	10
	(22,210)
	0
	(22,210)
	0
	0
	0
	(22,210)
	(1.22)
	(1.22)

Questcor Pharmaceuticals, Inc.

Form 10-K Items 14(a) (1) and (2)

Contents

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders
Questcor Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Questcor Pharmaceuticals, Inc. (formerly Cypros Pharmaceutical Corporation) as of December 31, 1999 and July 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for the five months ended December 31, 1999 and for each of the three years in the period ended July 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Questcor Pharmaceuticals, Inc. as of December 31, 1999 and July 31, 1999 and 1998, and the results of its operations and its cash flows for the five months ended December 31, 1999 and for each of the three years in the period ended July 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Palo Alto, California
February 14, 2000

QUESTCOR PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	DECEMBER 31, 1999	JULY 31, 1999	JULY 31, 1998
ASSETS			
Current assets:			
Cash and cash equivalents	$ 10,912	$ 2,509	$ 3,016
Short-term investments	10,787	2,965	10,429
Accounts receivable, net of allowance for doubtful accounts of $30 at December 31, 1999 and $15 and $0 at July 31, 1999 and 1998, respectively	1,889	392	517
Inventories	176	205	83
Prepaid expenses and other current assets	412	113	215
Total current assets	24,176	6,184	14,260
Investments	--	1,789	--
Property and equipment	2,852	1,472	1,064
Goodwill and other intangibles, net	5,029	3,424	4,340
Other assets	164	271	72
Total assets	$ 32,221	$ 13,140	$ 19,736
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 2,444	$ 498	$ 551
Accrued compensation	1,682	202	124
Deferred revenue	167	--	--
Accrued development costs	1,579	--	--
Other accrued liabilities	773	64	16
Current portion of long-term debt	348	53	98
Current portion of capital lease obligations	240	106	92
Total current liabilities	7,233	923	881
Long-term debt	5,893	7	59
Capital lease obligations	185	140	158
Other non-current liabilities	203	156	127
Commitments			
Stockholders' equity:			
Preferred stock, no par value, 7,500,000 shares authorized at December 31, 1999, 1,000,000 shares authorized at July 31, 1999 and 1998; 2,155,715 Series A shares issued and outstanding at December 31, 1999, none issued and outstanding at July 31, 1999 and 1998, (aggregate liquidation of $10,000 at December 31, 1999)	5,081	--	--
Common stock, no par value, 75,000,000 shares authorized at December 31, 1999 and 30,000,000 shares authorized at July 31, 1999 and 1998, respectively; 24,470,068 shares issued and outstanding at December 31, 1999 and 15,711,877 shares issued and outstanding at July 31, 1999 and 1998, respectively	65,423	41,497	41,328
Deferred compensation	(53)	(69)	(87)
Accumulated deficit	(51,724)	(29,514)	(22,730)
Accumulated other comprehensive loss	(20)	--	--
Total stockholders' equity	18,707	11,914	18,511
Total liabilities and stockholders' equity	$ 32,221	$ 13,140	$ 19,736

See accompanying notes.

QUESTCOR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FIVE MONTHS ENDED DECEMBER 31,		YEARS ENDED JULY 31,		
	1999	1998	1999	1998	1997
		(Unaudited)			
Revenue:					
Net product sales	$ 624	$ 897	$ 2,518	$ 3,446	$ 2,428
Contract research revenue	257	--	--	--	--
Grant revenue	75	11	51	170	99
Total revenues	956	908	2,569	3,616	2,527
Operating costs and expenses:					
Cost of product sales	500	271	771	771	539
Sales and marketing	946	733	1,703	1,310	994
General and administrative	1,684	837	2,261	2,802	2,397
Product development	1,266	1,053	2,438	2,521	1,967
Discovery research	1,589	581	1,614	1,267	1,032
Restructuring costs	1,530	--	--	--	--
Depreciation and amortization	574	507	1,239	1,239	1,075
Acquired in process research and development	15,168	--	--	--	--
Total operating costs and expenses	23,257	3,982	10,026	9,910	8,004
Loss from operations	(22,301)	(3,074)	(7,457)	(6,294)	(5,477)
Interest and other income, net	86	300	590	809	599
Rental income, net	5	35	83	171	63
Amortization of discount and costs on mandatorily convertible notes	--	--	--	(259)	(1,860)
Net loss	$(22,210)	$(2,739)	$(6,784)	$(5,573)	$(6,675)
Net loss per common share:					
Basic and diluted	$ (1.22)	$ (0.17)	$ (0.43)	$ (0.37)	$ (0.54)
Weighted average shares of common stock outstanding	18,240	15,712	15,712	15,187	12,303

See accompanying notes.

Questcor Pharmaceuticals, Inc.
Consolidated Statements of Stockholder's Equity
Five months ended December 31, 1999 and years ended July 31, 1999, 1998 and 1997
(in thousands, except share amounts)

	PREFERRED STOCK		COMMON STOCK		DEFERRED	ACCUMULATED	ACCUMULATED OTHER COMPREHENSIVE	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	SHARES	AMOUNT	COMPENSATION	DEFICIT	LOSS	EQUITY
Balances at July 31, 1996	--	$ --	11,613,748	$23,421	$(304)	$(10,482)	$ --	$ 12,635
Conversion of mandatorily convertible notes	--	--	953,907	3,973	--	--	--	3,973
Issuance of common stock, net of offering costs	--	--	1,075,000	4,715	--	--	--	4,715
Exercise of stock options	--	--	7,750	22	--	--	--	22
Forfeitures of stock options	--	--	--	(53)	53	--	--	--
Deferred compensation	--	--	--	267	(267)	--	--	--
Amortization of deferred compensation	--	--	--	--	357	--	--	357
Net loss	--	--	--	--	--	(6,675)	--	(6,675)
Balances at July 31, 1997	--	--	13,650,405	32,345	(161)	(17,157)	--	15,027
Conversion of mandatorily convertible notes	--	--	1,205,446	4,025	--	--	--	4,025
Issuance of redeemable class B Warrants	--	--	856,026	4,707	--	--	--	4,707
Deferred compensation	--	--	--	251	(251)	--	--	--
Amortization of deferred compensation	--	--	--	--	325	--	--	325
Net loss	--	--	--	--	--	(5,573)	--	(5,573)
Balances at July 31, 1998	--	--	15,711,877	41,328	(87)	(22,730)	--	18,511
Deferred compensation	--	--	--	169	(169)	--	--	--
Amortization of deferred compensation	--	--	--	--	187	--	--	187
Net loss	--	--	--	--	--	(6,784)	--	(6,784)
Balances at July 31, 1999	--	--	15,711,877	41,497	(69)	(29,514)	--	11,914
Issuance of preferred stock in business acquisition	2,155,715	5,081	--	--	--	--	--	5,081
Issuance of common stock in business acquisition	--	--	8,735,061	18,562	--	--	--	18,562
Issuance of stock options in business acquisition	--	--	--	5,310	--	--	--	5,310
Issuance of common stock to board members	--	--	23,130	54	--	--	--	54
Amortization of deferred compensation	--	--	--	--	16	--	--	16
Comprehensive loss:								
Net unrealized loss on investments	--	--	--	--	--	--	(20)	(20)
Net loss	--	--	--	--	--	(22,210)	--	(22,210)
Total comprehensive loss	--	--	--	--	--	--	--	(22,230)
Balances at December 31, 1999	2,155,715	$5,081	24,470,068	$65,423	$ (53)	$(51,724)	$(20)	$ 18,707

See accompanying notes

Questcor Pharmaceuticals, Inc.
Consolidated Statements of Cash Flows
Increase(Decrease) in Cash and Cash Equivalents
(in thousands)

	FIVE MONTHS ENDED DECEMBER 31,		YEAR ENDED JULY 31,		
	1999	1998	1999	1998	1997
		(UNAUDITED)			
OPERATING ACTIVITIES					
Net loss	$(22,210)	$(2,739)	$(6,784)	$ (5,573)	$ (6,675)
Adjustments to reconcile net loss to net cash used in operating activities:					
Amortization of deferred compensation	16	123	187	325	357
Depreciation and amortization	661	520	1,273	1,239	1,075
Charge for in process research and development	15,168	--	--	--	--
Issuance of common stock to board members	54	--	--	--	
Amortization of discount and costs on mandatorily convertible notes	--	--	--	259	1,860
Deferred rent expense	--	(6)	30	(3)	(16)
Loss (gain) on the sale of equipment	30	(6)	(6)	--	--
Write-off of patent	--	--	--	41	--
Changes in operating assets and liabilities, net of effects from acquisitions:					
Accounts receivable	303	306	125	(161)	(206)
Inventories	29	(70)	(122)	10	(30)
Prepaid expenses and other current assets	(183)	15	102	(140)	(14)
Accounts payable	(134)	(246)	(53)	186	246
Accrued compensation	1,217	--	--	--	--
Deferred revenue	(239)	--	--	--	--
Accrued development costs	(36)	--	--	--	--
Other accrued liabilities	380	23	124	(87)	(57)
Net cash flows used in operating activities	(4,944)	(2,080)	(5,124)	(3,904)	(3,460)
INVESTING ACTIVITIES					
Purchase of short-term investments	(909)	(2,308)	(1,148)	(12,481)	(18,980)
Proceeds from the maturity of short-term investments	2,292	5,140	6,821	11,518	16,443
Proceeds from the sale of short-term investments	2,667	--	--	--	--
Net cash from RiboGene acquisition	9,258	--	--	--	--
Investment in purchased technology	--	--	--	--	(2,014)
Installment payment for purchased technology	--	--	--	(1,272)	(200)
Purchase of property, equipment and leasehold improvements	(100)	(139)	(651)	(587)	(240)
Proceeds from the sale of equipment	--	11	11	--	--
Increase in licenses and patents	--	(10)	(14)	(97)	(82)
Decrease in deposits and other assets	269	21	(198)	23	21
Net cash flows provided by (used in) investing activities	13,477	2,715	4,820	(2,896)	(5,052)
FINANCING ACTIVITIES					
Issuance of common stock, net	--	--	--	4,708	4,736
Cash paid for repurchase of manditorily convertible notes	--	--	--	(2)	--
Issuance of long-term debt	--	4	--	209	
Issuance of capital leases	--	100			
Issuance of long term liabilities	--	--	--	--	--
Repayment of long-term debt	(71)	(52)	(95)	(94)	(99)
Repayments of capital leases/obligations	(59)	(39)	(108)	(106)	(93)
Net cash flows (used in) provided by financing activities	(130)	13	(203)	4,715	4,544
Increase (decrease) in cash and cash equivalents	8,403	648	(507)	(2,085)	(3,968)

Questcor Pharmaceuticals, Inc.
Consolidated Statements of Cash Flows

Cash and cash equivalents at beginning of period	2,509	3,016	3,016	5,101	9,069
Cash and cash equivalents at end of period	$ 10,912	$ 3,664	$ 2,509	$ 3,016	$ 5,101
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:					
Cash paid for interest	$ 11	$ 23	$ 47	$ 132	$ 124
NONCASH INVESTING AND FINANCING ACTIVITIES:					
Mandatorily convertible notes	$ --	$ --	$ --	$ 4,026	$ 3,973
Equipment financed under capital leases	$ --	$ --	$ 104	$ 101	$ 80
Purchased asset obligation	$ --	$ --	$ --	$ --	$ 1,200

CASH FLOW FOR ACQUISTION OF RIBOGENE

Tangible assets acquired (net of $10,324 cash received)	$ 2,417
Acquired in process research and development	15,168
Goodwill and other intangibles	2,110
Common stock issued	(18,562)
Preferred stock issued	(5,081)
Stock issued	(5,310)
Cash received for acquisition (net of $1,066 acquisition costs)	$ (9,258)

See accompanying notes

Questcor Pharmaceuticals, Inc.
Notes to Consolidated Financial Statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS ACTIVITY

Questcor Pharmaceuticals, Inc., formerly Cypros Pharmaceutical Corporation, (the "Company") was incorporated in California in 1990. The Company develops and markets acute-care, hospital-based products. The Company is currently marketing three products, Ethamolin(R), Glofil and Inulin, expects to launch two burn and wound care products using the Company's Dermaflo(R) technology within the next year and is developing three drugs, Cordox(TM), Ceresine(TM) and Emitasol(TM). In addition, the Company is manufacturing and selling to NutraMax Products, Inc. ("NutraMax") its topical triple antibiotic wound product in rolled stock for conversion by NutraMax into finished adhesive strips and patches for distribution into the over-the-counter market. The Company is conducting a Phase III clinical trial of Cordox in sickle cell anemia crisis patients, as well as a Phase III clinical trial of Emitasol in diabetic gastroparesis through its strategic partner, Roberts Pharmaceutical Corporation, a subsidiary of Shire Pharmaceuticals, Inc.

In conjunction with the acquisition of RiboGene, Inc. ("RiboGene"), the Company changed its fiscal year end from July 31 to December 31. RiboGene had operated using a fiscal year ending December 31.

The Company has sustained operating losses since inception and expects such losses to continue as it furthers its product development programs. From inception to December 31, 1999, the Company incurred cumulative net losses of approximately $51.7 million. The Company will need to obtain additional funds from outside sources to fund operating expenses and pursue regulatory approvals for its products under development. Management believes that sufficient funds are available to support planned operations into the first quarter of 2001. The Company may seek to fund its operations thereafter through collaborative arrangements and through public or private financings, including debt or equity financings.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. Actual results could differ from those estimates.

CASH EQUIVALENTS AND INVESTMENTS

The Company considers highly liquid investments with maturities from the date of purchase of three months or less to be cash equivalents.

1. Organization and Summary of Significant Accounting Policies (continued)

The Company determines the appropriate classification of investment securities at the time of purchase and reaffirms such designation as of each balance sheet date. The Company had previously classified certain of its investments in marketable securities as held to maturity. Upon the merger with RiboGene, the Company re-evaluated its classification policy and changed the classification of $1.8 million of securities to be available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, if any, reported in a separate component of stockholders' equity. Held-to-maturity investments were carried at cost, adjusted for amortization of premiums and accretion of dividends. The cost of securities sold is based on the specific identification method. Realized gains and losses, if any, are included in the statement of operations, in interest and other income, net.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISK

Financial instruments which subject the Company to potential credit risk consist of cash, cash equivalents, short-term investments and accounts receivable. The company invests its cash in high credit quality government and corporate debt instruments and believes the financial risks associated with these instruments are minimal. The Company extends credit to its customers, primarily hospitals and large pharmaceutical companies conducting clinical research, in connection with its product sales. The Company has not experienced significant credit losses on its customer accounts. Three customers individually accounted for 24%, 17% and 14% of sales for the five months ended December 31, 1999. Two customers individually accounted for 23% and 21% of sales, 23% and 12% of sales, and 23% and 13% of sales for the years ended July 31, 1999, 1998 and 1997, respectively. The percentages above comprise of different customers for each year.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market value.

DEPRECIATION AND AMORTIZATION

Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets (generally five years) using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful lives (seven years) or the remaining term of the lease.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was generated from the merger with RiboGene and is being amortized on a straight-line basis over three years. Other intangible assets consist of the assembled workforce, purchased technology and license and patent costs. Purchased technology associated with the acquisitions of Glofil, Inulin and Ethamolin is stated at cost and amortized over the estimated sales life of the product (seven years). The assembled workforce and purchased technology acquired from the merger with RiboGene are amortized on a straight line basis over the period estimated to be benefited (three years). License and patent costs are amortized over the estimated economic lives (generally six years) commencing at the time the license rights are granted or the patents are issued.

ACCOUNTING STANDARD ON IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company regularly evaluates its long-lived assets for indicators of possible impairment. To date, no such indicators have been identified.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenues from product sales of Ethamolin and whole vials of Glofil and Inulin are recognized upon shipment, net of allowances. Revenues from Glofil unit dose sales are recognized upon receipt by the Company of monthly sales reports from its third-party distributor. The Company is not obligated to accept returns of products sold that have reached their expiration date. Revenues from NutraMax Products are recorded upon customer acceptance.

Revenue earned under collaborative research agreements is recognized as the related services are performed and research expenses are incurred. Amounts received in advance of services to be performed are recorded as deferred revenue until the related expenses are incurred. Non-refundable milestone payments, which do not require the Company to perform additional services, are recognized as revenue in the period earned.

The Company has received government grants which support the Company's research effort in specific research projects. These grants generally provide for reimbursement of approved costs incurred as defined in the various awards.

NET LOSS PER SHARE

Under SFAS No. 128, Earnings Per Share, basic and diluted loss per share is based on net loss for the relevant period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share gives effect to all potential dilutive common shares outstanding during the period such as options, warrants, convertible preferred stock, and contingently issuable shares. Diluted net loss per share has not been presented separately as, due to the Company's net loss position, it is anti-dilutive. Had the Company been in a net income position at December 31, 1999, shares used in calculating diluted earnings per share would have included the dilutive effect of an additional 5,188,914 stock options, 2,155,715 preferred shares, placement unit options for 986,898 shares and 977,207 warrants. For the years ended July 31, 1999, 1998, and 1997, an aggregate of 2,268,686, 1,892,489, and 2,294,462 stock options and warrants would have been included in the diluted net loss per share calculation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under SFAS No. 123, Accounting for Stock-Based Compensation requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

For equity awards to non-employees, including lenders and lessors, the Company applies the Black-Scholes method to determine the fair value of such instruments. The options and warrants granted to non employees are re-measured as they vest and the resulting value is recognized as expense over the period of services received or the term of the related financing.

COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income" established standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Company provides the required disclosure in the Statements of Changes in Stockholders' Equity.

SEGMENT INFORMATION

Effective August 1, 1998, the Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS 131 redefines segments and requires companies to report financial and descriptive information about their operating segments. The Company has determined that it operates in one business segment and therefore the adoption of SFAS 131 does not affect the Company's financial statements.

Product sales revenue consists of the following (in thousands):

	Five Months Ended December 31, 1999	For the year ended July 31, 1999	1998	1997
Ethamolin	$319	$1,522	$2,162	$ 900
Inulin	19	208	237	421
Glofil	251	621	1,047	1,107
Neoflo	35	167	--	--
	$624	$2,518	$3,446	$2,428

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board Issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company has determined that the adoption of SFAS 133, which will be effective for the year ending December 2001, will have no impact on its financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition", which provides guidance on the recognition, presentation and disclosure in the financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. Management believes that the Company's revenue recognition policy is in compliance with the provisions of SAB 101 and the impact of SAB 101 will have no material affect on its financial position or results of operations.

RECLASSIFICATIONS

Certain amounts in the prior years' financial statements have been reclassified to conform with the presentation for the five months ended December 31, 1999.

2. ACQUISITIONS

On November 4, 1996, the Company acquired the New Drug Application, the U.S. trademark for Ethamolin Injection and the finished goods inventory on hand at closing from Schwarz Pharma, Inc., a Delaware corporation. The total purchase price was $3.3 million, of which the Company paid $2.1 million in cash and issued a $1.2 million, 8% note which was paid in full during fiscal year 1998.

The acquisition was accounted for using the purchase method and, accordingly, the financial statements include the operations of the acquired business from the date of acquisition. The purchase price was allocated primarily to purchased technology. The following unaudited pro forma data reflects the combined results of operations of the Company as if the Ethamolin acquisition had occurred on August 1, 1996 (in thousands):

	YEAR ENDED JULY 31, 1997
Net sales	$ 2,753
Net loss	(6,395)
Net loss per share	(0.52)

On November 17, 1999 the Company completed its merger with RiboGene. The Company issued 8,735,061 shares of its common stock and 2,155,715 shares of its preferred stock, valued at $18.6 million and $5.1 million, respectively. In addition, the Company assumed RiboGene's outstanding stock options and warrants, valued at $5.3 million, and incurred transaction and other costs of approximately $1.0 million. The transaction was accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of RiboGene are included in the consolidated balance sheet at December 31, 1999. The results of operations of RiboGene are included in the consolidated statement of operations from the acquisition date.

The purchase price was allocated based upon the estimated fair value of the assets acquired as follows (in thousands):

In process research and development	$15,168
Net tangible assets acquired	12,742
Goodwill	1,023
Developed technology	470
Assembled workforce	616
	$30,019

2. ACQUISITIONS (CONTINUED)

The Company calculated amounts allocated to in-process research and development using established valuation techniques in the pharmaceutical industry, and expensed such amounts in the quarter the acquisition was consummated because technological feasibility of the in-process technologies so acquired had not been achieved and no alternative future uses had been established. The Company computed its valuation of purchased in-process research and development using a discounted cash flow analysis on the anticipated income stream to be generated by the purchased technologies. In process research and development represents the estimated value of Emitasol which is currently being tested in a Phase III clinical trial.

In addition to in-process research and development, the excess purchase price over the estimated value of the net tangible assets acquired was allocated to developed technology, assembled work force and goodwill. The value assigned to developed technology was based upon future discounted cash flows related to the projected income streams from sales of Emitasol in a particular country where the drug has received regulatory approval. The value of the assembled workforces was based upon the cost to replace those work forces. Amounts allocated to goodwill and other intangibles are amortized on a straight-line basis over a three year period.

The following summary unaudited proforma information shows the proforma combined results of Questcor and RiboGene for the five months ended December 31, 1999 and for the years ended July 31, 1999 and 1998, as if the RiboGene acquisition had occurred on August 1, 1997 at the purchase price established in December 1999. Accordingly, the results are not necessarily indicative of those which would have occurred had the acquisition actually been made on August 1, 1997 or of future operations of the combined companies. The following net loss and loss per share amounts have been adjusted to exclude the write-off of acquired in process research and development of $15.2 million and include the goodwill and other intangible amortization of $293,000 for the five months ended December 31, 1999 and $703,000 for each of the years ended July 31, 1999 and July 31, 1998, respectively.

(in thousands except per share amounts)

	Five months ended December 31	Year ended July 31,	
	1999	1999	1998
Net revenue	$1,698	$ 4,948	$ 6,797
Net loss	(12,746)	(18,366)	(18,979)
Basic and diluted net loss per share	(0.52)	(0.75)	(0.79)

2. ACQUISITION (CONTINUED)

As a result of the RiboGene acquisition, the Company incurred restructuring costs of $1.5 million that consisted primarily of employee severance costs, of which $594,000 was accrued at December 31, 1999 and paid in the first quarter of 2000. Employee severance costs relate to the termination of approximately 20 former Cypros Pharmaceutical's employees in the general and administrative, research and development, clinical and regulatory, and sales and marketing departments following the merger with RiboGene.

3. DEVELOPMENT AND COLLABORATION AGREEMENTS

In January 1998, RiboGene entered into a collaboration with Dainippon for two of its targets in the antibacterial program. As part of the collaboration, Dainippon agreed to provide research support payments over three years, and fund additional research and development at Dainippon. Following the merger with RiboGene, the Company recognized approximately $240,000 of research revenue related to this agreement. Collaborative research payments from Dainippon are non-refundable.

In January 2000, the Company modified its existing agreement with Dainippon. In exchange for a $2.0 million cash payment and potential future milestone and royalty payments, the Company has granted an exclusive, world-wide license to Dainippon to use the Company's ppGpp Degradase and Peptide Deformylase technology for the research, development and commercialization of pharmaceutical products. The Company has retained the right to co-promote, in Europe and the United States, certain products resulting from the arrangement. The Company will be entitled to receive milestone payments upon the achievement of clinical and regulatory milestones in the amount of $5.0 million in Japan and $5.0 million in one other major market. Additionally, the Company will receive a royalty on net sales that will range from 5% to 10%, depending on sales volume and territory. Both companies have agreed to terminate the antibacterial research collaboration that was established in January 1998 between the two companies. The original agreement anticipated a third year of research collaboration between the two firms. Hence, all drug discovery efforts at the Company will cease and will be transferred to Dainippon in Osaka, Japan.

As a result of the merger with RiboGene, the Company assumed an option and license agreement entered into with Roberts Pharmaceutical Corporation, a subsidiary of Shire Pharmaceuticals Ltd, ("Roberts") in July 1998 for the development of Emitasol, an intranasally administered drug being developed for the treatment of diabetic gastroparesis and for the prevention of delayed onset emesis.

3. DEVELOPMENT AND COLLABORATION AGREEMENTS (CONTINUED)

Under the terms of the option and license agreement, Roberts will conduct clinical trials using Emitasol and, if those are successful, submit a New Drug Application ("NDA") for Emitasol. If FDA regulatory approval is obtained, Roberts will have 60 days to exercise an exclusive option for a license to market Emitasol in North America. Roberts has agreed to make a payment to the Company of up to $10.0 million upon the exercise of the option and to pay a royalty on product sales. The Company will provide up to $7.0 million in funding for the development of Emitasol through completion of Phase III trials and the submission of an NDA, with the balance, if any, provided by Roberts. Accumulated payments made to Roberts amounted to $1.3 million through December 31, 1999. Roberts also holds all 2,155,715 outstanding shares of the Company's Series A preferred stock which it originally acquired from RiboGene for a payment of $10 million.

3. DEVELOPMENT AND COLLABORATION AGREEMENTS (CONTINUED)

The Company has licenses to various patents for Cordox and Ceresine, its two clinical development programs, for the remaining term of the patents. The license agreements require payments of cash, warrants or the issuance of stock options to the licensers upon accomplishment of various milestones and the payment of royalties to the licensers upon the commercial sale of products incorporating the licensed compound. The only remaining development milestone under these agreements is the requirement that the Company pay the licensor of Cordox $250,000 upon the filing of a New Drug Application with the Food and Drug Administration for the approval to market that compound. In the event milestone or royalty payments to the licensor of Cordox are not made by the Company within specified time periods, that licensor may elect to terminate the license agreement and all rights thereunder. Such a termination could have a significant adverse impact upon the Company.

4. INVESTMENTS

Following is a summary of investments, at fair value, based on quoted market prices for these investments (in thousands):

	DECEMBER 31,	July 31,	
	1999	1999	1998
Money market funds	$ 4,364	$ 2,285	$ 2,656
Certificates of deposit	5,226	--	--
U.S. government obligations	--	--	495
Corporate debt securities	10,787	4,753	9,934
	20,377	7,038	13,085
Less amounts classified as cash equivalents	(9,590)	(2,284)	(2,656)
Less non current investment	--	(1,789)	--
Short-term investments	$ 10,787	$ 2,965	$ 10,429

At December 31, 1999 and July 31, 1999 and 1998, the differences between the fair value and the amortized cost was insignificant.

Of the above-referenced December 31, 1999 investments, $10.3 million matures at various dates through December 31, 2000. $487,000 will mature on August 6, 2001.

5. INVENTORIES

Inventories consist of the following (in thousands):

	DECEMBER 31, 1999	July 31, 1999	July 31, 1998
Raw materials	$ 91	$ 69	$ 2
Finished goods	85	136	81
	$176	$205	$83

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	DECEMBER 31, 1999	July 31, 1999	July 31, 1998
Laboratory equipment	$ 1,708	$ 1,004	$ 757
Office equipment, furniture and fixtures	1,440	754	783
Leasehold improvements	882	869	354
	4,030	2,627	1,894
Less accumulated depreciation and amortization	(1,178)	(1,155)	(830)
	$ 2,852	$1,472	$1,064

Depreciation and amortization expense totaled $156,000 for the five months ended December 31, 1999 and $325,000 and $300,000 for the years ended July 31, 1999 and July 31, 1998, respectively.

7. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles consist of the following (in thousands):

	DECEMBER 31, 1999	July 31, 1999	July 31, 1998
Goodwill	$ 1,023	$ --	$ --
Purchased technology	6,751	6,282	6,282
Assembled workforce	616	--	--
Licenses and patents	352	351	336
	8,742	6,633	6,618
Less accumulated amortization	(3,713)	(3,209)	(2,278)
	$ 5,029	$ 3,424	$ 4,340

8. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	DECEMBER 31, 1999	July 31, 1999	July 31, 1998
Note payable to a bank due December 2001, collateralized by a security interest in all unencumbered assets of the Company, bearing interest at 9.5%	$ 5,000	$ --	$ --
Note payable for equipment financing due 2001, collateralized by the underlying equipment, bearing interest at 12.24%	1,037	--	--
Note payable to a pharmaceutical company repaid November 1999	--	49	142
Other	204	11	15
	6,241	60	157
Less current portion	(348)	(53)	(98)
Total	$ 5,893	$ 7	$ 59

The cost of equipment specifically pledged under these agreements total $1.7 million at December 31, 1999 and $234,000 and $234,000 at July 31, 1999 and 1998, respectively.

8. LONG-TERM DEBT (CONTINUED)

In December 1998, RiboGene borrowed $5.0 million pursuant to a long-term note payable to a bank. The note requires monthly interest only payments at prime plus 1.0%. The rate at December 31, 1999 was 9.5%. The principal is due at the end of the three-year term. The loan is collateralized by a perfected security interest in all the unencumbered assets of the Company and requires that the Company maintain depository accounts with the bank with a minimum of $5.0 million. The Company is also required to comply with financial covenants based on certain ratios. At December 31, 1999, the Company was in compliance with all required covenants.

The fair value of notes payable is estimated based on current interest rates available to the Company for debt instruments of similar terms, degrees of risk and remaining maturities. The carrying value of these obligations approximate their respective fair values as of December 31, 1999 and July 31, 1999 and 1998.

9. COMMITMENTS

LEASES

The Company leases its office, research facilities under operating lease agreements and certain equipment under capital lease agreements, the terms of which range from 3 years to 15 years. Minimum future obligations under both operating and capital leases as of December 31, 1999 are as follows (in thousands):

	OPERATING LEASES	CAPITAL LEASES
2000	$ 1,222	$317
2001	1,257	93
2002	934	60
2003	907	1
2004	834	--
Thereafter	6,548	--
	$11,702	471
Less amounts representing interest		(46)
Present value of minimum lease payments		425
Current portion of capital lease obligations		(240)
Long-term capital lease obligations		$185

9. COMMITMENTS (CONTINUED)

The net book value of the equipment acquired under capital leases totaled $193,000 (net of accumulated amortization of $445,000) at December 31, 1999 and $215,000 and $225,000 (net of accumulated amortization of $402,000 and $289,000) at July 31, 1999 and July 31, 1998, respectively.

Rent expense totaled $313,000 for the five months ended December 31, 1999 and $509,000, $445,000 and $421,000 for the years ended, July 31, 1999, July 31, 1998 and July 31, 1997, respectively. Rent expense comprises the cost associated with four buildings leased by the Company: its current headquarters located in Hayward, California, its former headquarters in Carlsbad, California, and a production facility in Lee's Summit, Missouri. In April 1996, the Company subleased its original headquarters for the remainder of the original lease term plus an additional 36 month option. Net sublease income, is not included in the table above, but totaled $5,000 for the five months ended December 31, 1999 and $83,000, $171,000, $63,000 for the years ended July 31, 1999, July 31, 1998, and July 31, 1997, respectively. In the above table, minimum lease payments have not been reduced by minimum sublease income of approximately $216,000, $216,000, $216,000 and $144,000 in years ended December 31, 2000, 2001, 2002, and 2003, respectively.

MANDATORILY CONVERTIBLE NOTES

During 1996, the Company issued $8.0 million in principal amount of non-interest bearing mandatorily convertible notes. The Notes were convertible at the option of the investors into shares of the Company's common stock at various dates from January 31, 1997 through July 31, 1999. The Notes were all converted at various dates through July 31, 1998, except for $2,000 which was paid in cash.

10. STOCKHOLDERS' EQUITY

PREFERRED STOCK

The Company has authorized 7,500,000 shares of convertible preferred stock. As of December 31, 1999, 2,155,715 shares were issued and outstanding pursuant to a stock purchase agreement with Roberts Pharmaceutical Corporation (see note 3). At July 31, 1999 and 1998, no such shares were issued or outstanding.

10. STOCKHOLDERS' EQUITY (CONTINUED)

PLACEMENT AGENT UNIT OPTIONS

As part of the acquisition of RiboGene, the Company assumed placement agent options from a 1997 offering of preferred stock by RiboGene. At December 31, 1999, options to purchase 986,898 shares of common stock and 61,475 Class A warrants were outstanding at an aggregate exercise price of approximately $788,000. The Class A warrants have an exercise price of $4.64 per share.

WARRANTS

The Company had outstanding warrants at December 31, 1999, which were assumed in the merger with RiboGene as follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE OF COMMON STOCK	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)
Class A common stock warrants	245,917	$4.64	4.5
Other common stock warrants	669,815	$3.11	3.6
Total	915,732	$3.32	3.8

10. STOCKHOLDERS' EQUITY (CONTINUED)

STOCK OPTION PLANS

For certain options granted in the years ended July 31, 1999, 1998 and 1997, the Company recorded deferred stock compensation of $169,000, $251,000, and $267,000, respectively. For the five months ended December 31, 1999 and the years ended July 31, 1999, 1998 and 1997, the Company recorded amortization of deferred stock compensation of $16,000, $187,000, $325,000, and $357,000, respectively. As of December 31, 1999 the Company had $53,000 of remaining unamortized deferred compensation. This amount is included as a deduction of stockholders' equity and is being amortized over the vesting period of the underlying options.

Pro forma information regarding net loss and loss per share is required by SFAS 123, and has been determined as if the Company has accounted for its employee stock options under the fair value method set forth in SFAS 123. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a single reliable measure of the fair value of its employee stock options. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

The weighted-average fair value of granted options was $2.70, $2.14, $3.74, and $3.40 for the five months ended December 31, 1999 and the years ended July 31, 1999, 1998 and 1997, respectively. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model and a graded-vesting approach using the following weighted-average assumptions for the five months ended December 31, 1999 and the years ended July 31, 1999, 1998, and 1997, respectively: risk-free interest rate of 6.0%, weighted-average expected option life of 8 years; volatility of 85%, 85%, 79% and 84% and no dividends.

10. STOCKHOLDERS' EQUITY (CONTINUED)

The Company's pro forma net loss was $22.9 million, $10.5 million, $6.8 million and $7.7 million for the five months ended December 31, 1999 and the years ended July 31, 1999, 1998 and 1997, respectively. The Company's pro forma net loss per share was $1.26 and $0.67, $0.45, and $0.63 for the five months ended December 31, 1999 and the years ended July 31, 1999, 1998 and 1997, respectively. Future pro forma results of operations may be materially different from amounts reported as future years will include the effects of additional stock option grants.

As of December 31, 1999, 7,500,000 shares of common stock were reserved for issuance under the 1992 Stock Option Plan (the "1992 Plan"). The 1992 Plan provides for the grant of incentive and nonstatutory stock options with various vesting periods, generally four years, to employees, directors and consultants. The exercise price of incentive stock options must equal at least the fair market value on the date of grant, and the exercise price of nonstatutory stock options may be no less than 85% of the fair market value on the date of grant. The maximum term of options granted under the 1992 Plan is ten years.

As of December 31, 1999, 750,000 shares of common stock were reserved for issuance under the Directors' Equity Incentive Plan (the "Director's Plan"). The Director's Plan provides for the granting of 25,000 options to purchase common stock upon appointment as a non-employee director, an additional 10,000 options each January thereafter upon reappointment, and a payment of $2,000 for each board meeting attended. Options vest over four years. The exercise price of the options is 85% of the fair market value on the date of grant. The maximum term of options granted under the 1993 Plan is ten years.

Beginning in the 5 month period ended December 31, 1999, the Company began paying the bonus in shares of common stock ("stock bonus"). The number of shares of common stock issued with each Stock Bonus is equal to $2,000 divided by the ten-day average of the closing sales price for the common stock as quoted on the American Stock Exchange for the ten trading days immediately preceding the date of the board meeting at which the Stock Bonus is earned. Stock Bonuses are 100% vested on the date of the grant. The Company recognized $54,000 of expense related to stock bonuses for the five months ended December 31, 1999.

Questcor Pharmaceuticals, Inc.
Notes to Consolidated Financial Statements (continued)

10. STOCKHOLDERS' EQUITY (CONTINUED)

The following table summarizes stock option activity under the 1992 and 1993 Plans:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance at July 31, 1996	1,355,812	$4.21
Granted	309,499	$4.33
Exercised	(7,750)	$2.83
Canceled	(219,125)	$4.47
Balance at July 31, 1997	1,438,436	$4.25
Granted	749,700	$4.85
Canceled	(295,647)	$5.08
Balance at July 31, 1998	1,892,489	$4.36
Granted	570,550	$2.78
Canceled	(194,353)	$3.44
Balance at July 31, 1999	2,268,686	$3.94
Granted	3,003,791	$1.27
Canceled	(83,563)	$2.48
Balance at December 31, 1999	5,188,914	$2.70

Options granted in 1999 include options granted at the close of the merger to former employees of RiboGene in exchange for their RiboGene options.

At December 31, 1999, options to purchase 2,552,294 shares of common stock were exercisable and there were 3,061,086 shares available for future grant under both plans.

10. STOCKHOLDERS' EQUITY (CONTINUED)

Exercise prices and weighted average remaining contractual life for the options outstanding as of July 31, 1999 are as follows:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$1.08-$1.08	60,360	9.58	$1.08	--	--
$1.24-$1.25	1,381,409	9.87	$1.25	630	$1.25
$1.29-$1.57	562,440	7.57	$1.51	332,619	$1.50
$1.66-$2.00	519,893	8.95	$1.69	166,284	$1.71
$2.09-$2.88	616,015	7.53	$2.44	504,989	$2.45
$3.00-$3.73	809,648	6.78	$3.53	501,609	$3.45
$3.75-$5.00	547,417	5.36	$4.27	506,620	$4.27
$5.13-$5.50	623,500	6.34	$5.25	472,041	$5.29
$5.63-$7.86	64,999	3.93	$6.71	64,269	$6.72
$20.88-$20.88	3,233	6.72	$20.88	3,233	$20.88
	5,188,914	7.79	$2.70	2,552,294	

RESERVED SHARES

The Company has reserved shares of common stock for future issuance as follows:

	December 31, 1999
Outstanding options	5,188,914
Convertible preferred stock issued and outstanding	2,155,715
Placement agent unit options	986,898
Class A warrants (including Class A warrants underlying Placement Agent Unit Options)	307,392
Common stock warrants	669,815
Reserved for future grant or sale under option plans	3,061,086
	12,369,820

11. INCOME TAXES

As of December 31, 1999, the Company had federal and state net operating loss carryforwards of approximately $76.6 million and $16.2 million, respectively. The Company also had federal and California research and development tax credit carryforwards of approximately $1.6 million and $600,000. The federal and state net operating loss and credit carryforwards will expire at various dates beginning in the year 2000 through 2019, if not utilized.

Utilization of the federal and state net operating loss and credit carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets for financial reporting and the amount used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes are as follows (in thousands):

	December 31,	July 31,	
	1999	1999	1998
Deferred tax liabilities:			
Goodwill and purchased intangibles	$ 800	$ 54	$ 267
Deferred tax assets:			
Net operating loss carryforwards	$ 27,000	$ 8,351	$ 6,439
Research and development credits	2,200	1,115	836
Capitalized research and development expenses	2,400	735	569
Acquired research and development	1,100	--	--
Other, net	700	93	53
Total deferred tax assets	33,400	10,294	7,897
Valuation allowance	(32,600)	(10,240)	(7,630)
Net deferred taxes	$ --	$ --	$ --

Due to the Company's lack of earnings history, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $2.6 million and $1.2 million during the years ended July 31, 1998 and 1997, respectively.

12. LEGAL PROCEEDINGS

In July 1998, the Company was served with a complaint in the United States Bankruptcy Court for the Southern District of New York by the Trustee for the liquidation of the business of A. R. Baron & Co., Inc. ("A. R. Baron") and the Trustee of The Baron Group, Inc. (the "Baron Group"), the parent of A. R. Baron. The complaint alleges that A. R. Baron and the Baron Group made certain preferential or fraudulent transfers of funds to the Company prior to the commencement of bankruptcy proceedings involving A. R. Baron and the Baron Group. The Trustee is seeking return of the funds totaling $3.2 million. The Company believes that the Trustee's claims are unfounded and is contesting the allegations in the complaint vigorously. The Company contends that the transfers challenged by the Trustee related to (i) the exercise by A. R. Baron in 1995 of unit purchase options issued to it in 1992 as part of its negotiated compensation for underwriting the Company's initial public offering and (ii) the repayment by the Baron Group of the principal and interest (at 12% per annum) payments and certain loan extension fees related to certain collateralized loans made to it by the Company in 1995 and 1996. The ultimate outcome of these matters is uncertain.

FINANCIAL STATEMENT SCHEDULES (ITEM 14(a)(2))

SCHEDULE II

QUESTCOR PHARMACEUTICALS, INC.
Consolidated Valuation and Qualifying Accounts
Five months ended December 31, 1999 and years ended July 31, 1999, July 31, 1998 and July 31, 1997

	Balance at Beginning Period	Additions Charged to Income	Deductions and Write-offs	Balance at Period
(in thousands)				
Reserves for uncollectible and sales returns and allowances				
December 31, 1999	$ 15	$ 15	$ --	$ 30
July 31, 1999	$ --	$ 16	$ 1	$ 15
July 31, 1998	$ --	$ --	$ --	$ --
July 31, 1997	$ --	$ --	$ --	$ --

All other financial statement schedules are omitted because the information described therein is not applicable, not required or is furnished in the financial statements or notes thereto.