SCIOS INC
Form S-3
September 17, 2002
Table of Contents

As filed with the Securities and Exchange Commission on September 17, 2002
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

SCIOS INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**95-3701481**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

820 West Maude Avenue
Sunnyvale, CA 94085 (408) 616-8200
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

MATTHEW R. HOOPER, ESQ.
Vice President, General Counsel and Secretary
820 West Maude Avenue
Sunnyvale, CA 94085
(408) 616-8200
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copy To:

KIMBERLY WILKINSON, ESQ.
Latham & Watkins
505 Montgomery Street, Suite 1900
San Francisco, California 94111
(415) 391-0600

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

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

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount Of Registration Fee
5.50% Convertible Subordinated Notes Due 2009	$150,000,000	100%	$150,000,000	$13,800
Common Stock, par value $0.001 per share	3,816,793 shares(2)			

(1) Equals the aggregate principal amount of the notes being registered. Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) Represents the number of shares of common stock that are currently issuable upon conversion of the notes. Pursuant to Rule 416 under the Securities Act, the registrant is also registering such indeterminate number of shares of common stock as may be issued from time to time upon conversion of the notes as a result of dilution resulting from stock splits, stock dividends or similar transactions. No additional consideration will be received for the common stock, and therefore no registration fee is required pursuant to Rule 457(i).

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

Table of Contents

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

SUBJECT TO COMPLETION, DATED SEPTEMBER 17, 2002

PROSPECTUS

$150,000,000

Scios Inc.

5.50% Convertible Subordinated Notes Due 2009
Shares of Common Stock Issuable Upon Conversion of the Notes

In August 2002, we issued and sold $150,000,000 aggregate principal amount of our 5.50% Convertible Subordinated Notes due 2009 in a private offering. This prospectus will be used by selling securityholders to resell the notes and the common stock issuable upon conversion of the notes. Holders may convert the notes into our common stock at any time through maturity, at a conversion price of $39.30 per share, subject to adjustment in specified events. We will pay interest on the notes each February 15 and August 15 to the holders of record on each February 1 and August 1. The first interest payment will be made on February 15, 2003.

We may redeem some or all of the notes on or after August 19, 2005 at the redemption prices listed in this prospectus, plus accrued interest. You may require us to repurchase your notes upon a change in control, at our option, in cash, common stock or a combination thereof, at 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest to, but excluding, the purchase date.

We have pledged a portfolio of U.S. government securities as security for the first six scheduled interest payments due on the notes.

The notes will not be listed on any national securities exchange. Our common stock is quoted on the Nasdaq National Market under the symbol SCIO. On September 13, 2002, the last reported sale price of our common stock on the Nasdaq National Market was $25.77 per share.

We will not receive any proceeds from the sale by the selling securityholders of the notes or the common stock issuable upon conversion of the notes. Other than selling commissions and fees and stock transfer taxes, we will pay all expenses of the registration and sale of the notes and the common stock.

Investing in the notes involves risk. See Risk Factors beginning on page 4 of this prospectus.

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

The date of this prospectus is , 2002

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information contained or incorporated by reference in this prospectus is accurate as of any date other than the date of this prospectus. We are not making an offer of these securities in any state where the offer is not permitted.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward looking statements. These statements related to future events or our future financial performance. We have attempted to identify these statements by terminology including anticipate, believe, can, continue, could, estimate, expect, intend, potential, predict, should, or will or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks and uncertainties outlined under Risk Factors, that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We assume no obligation to update these forward-looking statements.

Although we believe that the expectations reflected in these statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights some information contained or incorporated by reference in this prospectus. It may not contain all of the information that is important to you. Important information is incorporated by reference into this prospectus. To understand this offering fully, you should read the entire prospectus carefully, including the Risk factors section and the documents we have referred you to. References in this prospectus to us, we, the Company or Scios refer to Scios Inc., the issuer of the notes, and its subsidiaries.

Scios Inc.

We are a biopharmaceutical company developing novel treatments for cardiovascular and inflammatory diseases. On August 13, 2001, we launched Natrecor (nesiritide) following FDA approval of Natrecor for the treatment of acutely decompensated congestive heart failure, or acute CHF. Our disease-based technology platform integrates expertise in protein biology with computational and medicinal chemistry to identify novel targets and rationally design small molecule compounds for large markets with unmet medical needs. In addition to Natrecor, we have two focused product programs. SCIO-469 is an oral, small molecule inhibitor of p38 kinase for the treatment of rheumatoid arthritis, or RA. We completed a Phase Ib clinical trial of SCIO-469 in April 2001, and we began enrollment of a Phase IIa clinical trial in February 2002. Our second product program is focused on the development of novel and potent small molecule inhibitors of the receptor for TGF-beta, a cytokine that has been implicated in diseases characterized by chronic scar formation, or fibrosis, and is currently in preclinical development.

We were incorporated in California in 1981 under the name California Biotechnology Inc. and reincorporated in Delaware in 1988. We changed our name to Scios Inc. in February 1992, and to Scios Nova Inc. in September 1992 following our acquisition of Nova Pharmaceuticals, Inc. We returned to using the name Scios Inc. in March 1996. Our principal executive offices are located at 820 West Maude Avenue, Sunnyvale, California 94085. Our telephone number is (408) 616-8200.

Our website is located at www.sciosinc.com. Information contained on our website does not constitute part of this prospectus.

We own various copyrights, trademarks and trade names used in our business including the following: Natrecor® and Fiblast®. This prospectus also includes trademarks, service marks and trade names of other companies, including the following: Veletri, BIOBYPASS®, Gliadel®, Biodel®, Enbrel®, Remicade®, Celebrex®, Vioxx®, Simdax®, Eskalith®, Eskalith CR®, Stelazine®, Thorazine®, Parnate® and Kineret®.

Table of Contents

THE NOTES

Issuer	Scios Inc.
Securities offered	$150,000,000 aggregate principal amount of 5.50% Convertible Subordinated Notes due 2009.
Interest	5.50% per annum on the principal amount, payable semiannually in arrears in cash on February 15 and August 15 of each year, commencing February 15, 2003. The first interest payment will include interest from August 5, 2002, the closing date.
Maturity date	August 15, 2009.
Conversion rights	The notes are convertible into common stock at the option of the holder at any time prior to redemption, repurchase or maturity at a conversion price of $39.30 per share, subject to adjustments in specified events. See Description of notes Conversion of the notes.
Security	We have purchased and pledged to the trustee under the indenture, as security for the benefit of the trustee under the indenture and the ratable benefit of the holders of the notes, approximately $24.0 million of U.S. government securities, which will be sufficient upon receipt of scheduled principal and interest payments thereon, to provide for the payment in full of the first six scheduled interest payments due on the notes. The notes will otherwise not be secured. See Description of notes Security.
Ranking	The notes (other than with respect to payments made toward the first six scheduled interest payments due on the notes, as described above under Security) are subordinated in right of payment to all existing and future senior indebtedness of Scios Inc. and are structurally subordinated to any indebtedness and other liabilities (including trade and other payables) of our subsidiaries. As of June 30, 2002, we had approximately $56.7 million of indebtedness that would have constituted senior indebtedness. The indenture governing the notes does not limit the amount of indebtedness, including senior indebtedness, that we or our subsidiaries may incur. See Description of notes Subordination of the notes.
Optional redemption	At any time on or after August 19, 2005, we may redeem some or all of the notes at the declining redemption prices listed herein, plus accrued interest. See Description of notes Optional redemption by Scios.
Repurchase at holder s option	You may require us to repurchase your notes upon a change in control in cash, or at our option in shares of common stock, or a combination thereof, at 100% of the principal amount of the notes plus accrued and

Table of Contents

	unpaid interest to, but excluding, the repurchase date. The number of shares of common stock will be equal to the repurchase price (to the extent not paid in cash) divided by 95% of the average closing sales prices of our common stock for the five trading day period immediately preceding and including the third trading day preceding the repurchase date. We may not have sufficient funds to pay the purchase price for all duly tendered notes upon a change in control.
Sinking fund	None.
Use of proceeds	The selling securityholders will receive all of the proceeds from the sale under this prospectus of the notes and the common stock issuable upon conversion of the notes. We will not receive any proceeds from these sales.
Nasdaq National Market symbol for common stock	SCIO
Trading	The notes will not be listed on any national securities exchange.
Risk factors	You should read the Risk factors section beginning on page 4 of this prospectus to ensure that you understand the risks associated with an investment in the notes or the common stock issuable upon conversion of the notes.

Table of Contents

RISK FACTORS

You should consider the risk factors below as well as the other information set forth or incorporated by reference in this prospectus. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected. In such case, our ability to make payments on the notes could be impaired, the trading prices of the notes and our common stock would decline, and you could lose all or part of your investment. Please read Special note regarding forward-looking statements.

Risks related to Natrecor

If Natrecor does not continue to gain market acceptance, our business will suffer.

Natrecor may not continue to gain market acceptance among physicians, patients, healthcare payers and the medical community. We will need to educate doctors and other healthcare advisors of the safety and clinical efficacy of Natrecor and its potential advantages over other treatments. The degree of market acceptance of Natrecor will also depend on a number of factors, including:

the degree of clinical efficacy and safety;

cost-effectiveness of Natrecor;

its advantage over alternative treatment methods; and

reimbursement policies of government and third party payers.

To the extent market acceptance of Natrecor is limited, our revenues may suffer.

If the FDA determines that our third-party manufacturing facilities are not adequate, we may lose the ability to manufacture and sell Natrecor.

Periodically, the FDA is likely to inspect each of the facilities involved in manufacturing Natrecor. Natrecor is manufactured for us by BioChemie GmbH, a subsidiary of Novartis, in Austria and is shipped bulk active pharmaceutical ingredient to Abbott Laboratories in McPherson, Kansas where it is blended, filled and packaged for shipment. Although each facility has previously passed FDA inspections, future inspections may find deficiencies in the facilities or processes that may delay or prevent the manufacture or sale of Natrecor. If deficiencies are identified, we may lose the ability to supply and sell Natrecor for extended periods of time.

We rely on third-party manufacturers, and if they experience any difficulties with their manufacturing processes, we may not obtain sufficient quantities of Natrecor to assure availability.

We rely on third parties for the manufacture of bulk drug substances and final drug product for clinical and commercial purposes relating to Natrecor. BioChemie GmbH is responsible for manufacturing the bulk active pharmaceutical ingredient in Natrecor and Abbott Laboratories is responsible for blending, filling and packaging Natrecor, and if they encounter problems in these processes, our revenues from future sales of Natrecor could decrease. Natrecor is manufactured using industry-accepted recombinant manufacturing techniques, which must be conducted under strict controls and tight timelines. Natrecor is subject to strict quality control testing during all phases of production and prior to its release to the market. Any quality control testing failures could lead to a reduction in the available supply of Natrecor. BioChemie depends on outside vendors for the timely supply of raw materials used to produce Natrecor. Once a supplier s materials have been selected for use in BioChemie s manufacturing process, the supplier in effect becomes a sole or limited source of that raw material due to regulatory compliance procedures. We depend on these third parties to perform their obligations effectively and on a timely basis. If these third parties fail to perform as required, our ability to deliver Natrecor on a timely basis would be impaired. In addition, in the event of a natural disaster, equipment failure, power failure, strike or other

Table of Contents

difficulty, we may be unable to replace our third-party manufacturers in a timely manner and would be unable to manufacture Natrecor to meet market needs.

From time to time changes will be made in the process used by BioChemie to manufacture the bulk active pharmaceutical ingredient, or bulk API, used in Natrecor or in the process used by Abbott to manufacture the final drug product. Depending on the extent of these changes, we may need to obtain prior approval from the FDA to sell Natrecor that was manufactured using the changed processes, and if such approval is denied or delayed, our ability to deliver Natrecor could be impaired. We believe that changes made in 2002 to the process for manufacturing the bulk API may require us to obtain prior approval from the FDA to sell Natrecor incorporating the bulk API manufactured after those changes were made.

In the area of acute CHF, we face competition from companies with substantial financial, technical and marketing resources, which could limit our future revenues from Natrecor.

Many therapeutic options are available for patients with acute CHF. Competing drugs fall into three main categories: vasodilators, inotropes and diuretics. Natrecor competes against both vasodilators and inotropes in the acute CHF market. Many of these drugs are available in generic formulation with an associated low cost. We may not be able to compete effectively with these long-standing current forms of therapy. In addition, Natrecor costs more than many of these existing drugs, which may harm our competitive position relative to these drugs.

New drugs in development for the treatment of acute CHF would also compete with Natrecor if approved by the FDA or other regulatory agencies. Veletri (tezosentan), a non-selective endothelin receptor antagonist, is being developed by Actelion Ltd Actelion recently completed Phase II clinical trials with Veletri for the treatment of acute CHF. Based on the results of the Phase II clinical trials, Actelion announced in September 2002 that it intends to proceed with a Phase III trial with Veletri to evaluate mortality and morbidity benefits.

In addition, Abbott had previously submitted an NDA for Simdax (levosimendan), a calcium sensitizer described as an inotrope, but withdrew the application in 2000. However, we understand that Abbott is currently in Phase III development of this product. If any such new drug in development is approved by the FDA or other regulatory agencies, we may not be able to compete effectively with these new forms of therapy.

If we fail to gain approval for Natrecor and our other product candidates in international markets, our market opportunities will be limited.

We have not yet filed for marketing authorization for the use of Natrecor or any other product candidates in foreign countries, and we may not be able to obtain any international regulatory approvals for Natrecor or any other product we develop. If we fail to obtain those approvals or if such approvals are delayed, the geographic market for Natrecor or our other product candidates would be limited.

The success of Natrecor in European markets is highly dependent on obtaining European approval and our licensing agreement with GSK for marketing, promotion and sales activities.

We plan to partner with other companies for the sale of Natrecor and our other product candidates outside of the United States. In March 2002, we entered into an agreement with GSK in all European markets. Under the terms of the agreement, GSK has the rights to sell and distribute Natrecor for which we have received an up-front fee and may receive milestone payments, in addition to future royalties on sales of Natrecor in the identified countries. Accordingly, our revenue from sales of Natrecor in Europe will be highly dependent on GSK s ability to effectively market and sell Natrecor. We will manufacture and supply the bulk product (active pharmaceutical ingredient) to GSK.

GSK expects to file its application with The European Agency for the Evaluation of Medicinal Product using the extensive clinical data we submitted to obtain approval from the FDA in August 2001. If GSK receives

Table of Contents

the necessary approvals, GSK expects to launch Natrecor in Europe in 2004. However, while the clinical data used to support the FDA submission are expected to be adequate for European approval, further clinical trials may be necessary and adverse results from such additional trials could result in a failure to receive European approval. Even if additional trials are successful, a requirement to conduct further clinical trials would delay the launch of Natrecor in Europe, which may result in lower than anticipated revenues.

The companies intend to conduct a health outcomes trial, commencing in 2003, which the companies hope to use to enhance market acceptance of Natrecor in major European countries. The health outcomes trial could affect the price at which Natrecor will be sold. We cannot assure you that a preferred price for Natrecor will be obtained and that market acceptance of Natrecor will be achieved.

We will require a partner to market and commercialize Natrecor and our other product candidates in international markets other than Europe.

We plan to partner Natrecor in international markets other than European markets. We cannot assure you that we will be able to enter into such arrangements on favorable terms or at all. In addition, partnering arrangements could result in lower levels of income to us than if we marketed our products entirely on our own. In the event that we are unable to enter into a partnering arrangement for Natrecor or our other product candidates in international markets, we cannot assure you we will be able to develop an effective international sales force to successfully market and commercialize those products. If we fail to enter into partnering arrangements for our products and are unable to develop an effective international sales force, our revenues would be limited.

If we fail to obtain additional marketing approvals from the FDA for the use of Natrecor for additional therapeutic indications or if approval is revoked, our revenues from Natrecor will suffer.

In order to expand the medical uses, or therapeutic indications, for which we may market Natrecor, we must successfully complete additional clinical trials, which could be lengthy and expensive and will require the allocation of both substantial management and financial resources. Thereafter, we will have to apply separately to the FDA for approval to market Natrecor for other indications. We cannot assure you that we will be able to successfully complete the required clinical trials or that the FDA will approve Natrecor for any additional indications. In addition, even if Natrecor is approved by the FDA for additional clinical indications, we cannot exclude the possibility that serious adverse events related to the use of Natrecor might occur in the future, which could either limit its use or cause the FDA to revoke our approval to market Natrecor.

Other risks related to Scios

We have a history of losses, expect to operate at a loss for the foreseeable future and may never be profitable.

We may not be able to achieve or earn a profit in the future. We began operations in December 1981, and since that time, with the sole exception of 1983, we have not earned a profit on a full year basis. Our losses have historically resulted primarily from our investments in research and development. As of June 30, 2002, we had an accumulated deficit of approximately $521.6 million.

To date, nearly all of our revenues have come from:

- sales of Natrecor beginning in August 2001;
- one-time sales of bulk FGF product and royalties from Fiblast Spray sales by Kaken in Japan;
- one-time signing fees from our corporate partners under agreements supporting the research, development and commercialization of our product candidates;

Table of Contents

- one-time payments from our corporate partners when we achieved regulatory or development milestones;
- research funding from our corporate partners; and
- our psychiatric sales and marketing division, the operations of which we dissolved on March 31, 2001.

We expect that our research, development and clinical trial activities and regulatory approvals, together with future general and administrative activities and the costs associated with launching and commercializing our product candidates and commercializing Natrecor in the United States will result in significant expenses for the foreseeable future.

If we fail to obtain additional capital necessary to fund our operations, we may have to delay or scale back some of our programs or grant rights to third parties to develop and market our products.

We will continue to expend substantial resources developing new and existing product candidates, including costs associated with research and development, acquiring new technologies, conducting preclinical studies and clinical trials, obtaining regulatory approvals and manufacturing products. We believe that our current working capital, revenues from Natrecor sales and future payments, if any, from our collaboration arrangements will be sufficient to meet our operating and capital requirements for at least the next 12 months. Our need for additional funding depends on a number of factors including:

- costs and rate of progress expected in developing product candidates and obtaining regulatory approvals;
- costs of obtaining regulatory approvals for Natrecor in markets other than the United States and for additional indications in the United States;
- acquisition of technologies and other business opportunities that require financial commitments; or
- revenues from the commercialization of Natrecor and any other potential products.

Our operating results are subject to fluctuations that may cause our stock price to decline.

Our revenues and expenses have fluctuated significantly in the past. This fluctuation has in turn caused our operating results to vary significantly from quarter to quarter and year to year. We expect the fluctuations in our revenues and expenses to continue, and thus, our operating results should also continue to vary significantly. These fluctuations may be due to a variety of factors including:

- our success in selling Natrecor;
- the timing and realization of milestone and other payments from our corporate partners;
- the timing and amount of expenses relating to our research and development, product development and manufacturing activities; and
- the extent and timing of costs related to our activities to obtain patents on our inventions and to extend, enforce and/or defend our patents and other rights to our intellectual property.

Because of these fluctuations, it is possible that our operating results for a particular quarter or quarters will not meet the expectations of public market analysts and investors, causing the market price of our common stock to decline. We believe that period-to-period comparisons of our operating results are not a good indication of our future performance, and you should not rely on those comparisons to predict our future operating or share price performance.

Table of Contents

We depend on our key personnel and we must continue to attract and retain key employees and consultants.

We depend on our key scientific and management personnel. Our ability to pursue the development of our current and future product candidates depends largely on retaining the services of our existing personnel and hiring additional qualified scientific personnel to perform research and development. We also rely on personnel with expertise in clinical testing, government regulation, manufacturing, sales and marketing. Attracting and retaining qualified personnel will be critical to our success. We may not be able to attract and retain personnel on acceptable terms given the competition for such personnel among biotechnology, pharmaceutical and healthcare companies, universities and non-profit research institutions. Failure to retain our key scientific personnel or to attract additional highly qualified personnel could delay the development of our product candidates and harm our business.

Other than Natrecor, our product candidates are at early stages of development, and if we are unable to develop and commercialize these product candidates successfully, we will not generate revenues from these products.

We face the risk of failure normally found in developing biotechnology products based on new technologies. Successfully developing, manufacturing, introducing and marketing our early-stage product candidates, including SCIO-469 and our inhibitors of TGF-beta, will require at least several years and substantial additional capital.

Our operations depend on compliance with complex FDA and comparable international regulations. If we fail to obtain approvals on a timely basis or to achieve continued compliance, the commercialization of our products could be delayed.

We cannot assure you that we will receive the regulatory approvals necessary to commercialize our product candidates, which could cause our business to fail. Our product candidates are subject to extensive and rigorous government regulation by the FDA and comparable agencies in other countries. The FDA regulates, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertising, promotion, sale and distribution of biopharmaceutical products. If our potential products are marketed abroad, they will also be subject to extensive regulation by foreign governments. In addition, we have only limited experience in filing and pursuing applications necessary to gain regulatory approvals, which may impede our ability to obtain such approvals.

The results of preclinical studies and clinical trials of our products may not be favorable.

In order to obtain regulatory approval for the commercial sale of any of our product candidates, we must conduct both preclinical studies and human clinical trials. These studies and trials must demonstrate that the product is safe and effective for the clinical use for which we are seeking approval. In the first quarter of 2002, we began Phase IIa clinical trials of our lead p38 kinase inhibitor small molecule compound. The results of these or other clinical trials that we may conduct in the future may not be successful. Adverse results from our current or any future trials would harm our business. We also face the risk that we will not be permitted to undertake or continue clinical trials for any of our product candidates in the future. Even if we are able to conduct such trials, we may not be able to satisfactorily demonstrate that the products are safe and effective and thus qualify for the regulatory approvals needed to market and sell them. Results from preclinical studies and early clinical trials are often not accurate indicators of results of later-stage clinical trials that involve larger human populations.

Our products use novel alternative technologies and therapeutic approaches, which have not been widely studied.

Our product development efforts focus on novel alternative therapeutic approaches and new technologies that have not been widely studied. These approaches and technologies may not be successful. We are applying

Table of Contents

these approaches and technologies in our attempt to discover new treatments for conditions that are also the subject of research and development efforts of many other companies.

Rapid changes in technology and industry standards could render our potential products unmarketable.

We are engaged in a field characterized by extensive research efforts and rapid technological development. New drug discoveries and developments in our field and other drug discovery technologies are accelerating. Our competitors may develop technologies and products that are more effective than any we develop or that render our technology and potential products obsolete or noncompetitive. In addition, our potential products could become unmarketable if new industry standards emerge. To be successful, we will need to enhance our product candidates and design, develop and market new product candidates that keep pace with new technological and industry developments.

Many other companies are targeting the same diseases and conditions as we are. Competitive products from other companies could significantly reduce the market acceptance of our products.

The markets in which we compete are well established and intensely competitive. We may be unable to compete successfully against our current and future competitors. Our failure to compete successfully may result in pricing reductions, reduced gross margins and failure to achieve market acceptance for our potential products. Our competitors include pharmaceutical companies, biotechnology companies, chemical companies, academic and research institutions and government agencies.

For example, many pharmaceutical and biotechnology companies have initiated research programs similar to ours. Many of these organizations have substantially more experience and more capital, research and development, regulatory, manufacturing, sales, marketing, human and other resources than we do. As a result, they may:

- develop products that are safer or more effective than our product candidates;
- obtain FDA and other regulatory approvals or reach the market with their products more rapidly than we can, reducing the potential sales of our product candidates;
- devote greater resources to market or sell their products;
- adapt more quickly to new technologies and scientific advances;
- initiate or withstand substantial price competition more successfully than we can;
- have greater success in recruiting skilled scientific workers from the limited pool of available talent;
- more effectively negotiate third-party licensing and collaboration arrangements; and
- take advantage of acquisition or other opportunities more readily than we can.

In addition, our product candidates, if approved and commercialized, will compete against well-established existing therapeutic products that are currently reimbursed by government health administration authorities, private health insurers and health maintenance organizations. We face and will continue to face intense competition from other companies for collaborative arrangements with pharmaceutical and biotechnology companies, for relationships with academic and research institutions and for licenses to proprietary technology. In addition, we anticipate that we will face increased competition in the future as new companies enter our markets and as scientific developments continue to expand the understanding of various diseases. While we will seek to expand our technological capabilities to remain competitive, research and development by others may render our technology or product candidates obsolete or noncompetitive or result in treatments or cures superior to any therapy developed by us.

Table of Contents

If we are unable to protect our intellectual property rights adequately, the value of our potential products could be diminished.

Our success is dependent in part on obtaining, maintaining and enforcing our patents and other proprietary rights. Patent law relating to the scope of claims in the biotechnology field in which we operate is still evolving and surrounded by a great deal of uncertainty. Accordingly, we cannot assure you that our pending patent applications will result in issued patents. Because certain U.S. patent applications may be maintained in secrecy until a patent issues, we cannot assure you that others have not filed patent applications for technology covered by our pending applications or that we were the first to invent the technology.

Other companies, universities and research institutions have or may obtain patents and patent applications that could limit our ability to use, manufacture, market or sell our product candidates or impair our competitive position. As a result, we may have to obtain licenses from other parties before we could continue using, manufacturing, marketing or selling our potential products. Any such licenses may not be available on commercially acceptable terms, if at all. If we do not obtain required licenses, we may not be able to market our potential products at all or we may encounter significant delays in product development while we redesign potentially infringing products or methods.

In addition, although we own a number of patents, including issued patents and patent applications relating to Natrecor and certain of our p38 kinase inhibitors, the issuance of a patent is not conclusive as to its validity or enforceability, and third parties may challenge the validity or enforceability of our patents. We cannot assure you how much protection, if any, will be given to our patents if we attempt to enforce them and they are challenged in court or in other proceedings. It is possible that a competitor may successfully challenge our patents or that challenges will result in limitations of their coverage. In addition, the cost of litigation to uphold the validity of patents can be substantial. If we are unsuccessful in such litigation, third parties may be able to use our patented technologies without paying licensing fees or royalties to us.

Moreover, competitors may infringe our patents or successfully avoid them through design innovation. To prevent infringement or unauthorized use, we may need to file infringement claims, which are expensive and time consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or may refuse to stop the other party from using the technology at issue on the grounds that its technology is not covered by our patents. Policing unauthorized use of our intellectual property is difficult, and we cannot assure you that we will be able to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

In addition to our patented technology, we also rely on unpatented technology, trade secrets and confidential information. We may not be able to effectively protect our rights to this technology or information. Other parties may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our technology. We require each of our employees, consultants and corporate partners to execute a confidentiality agreement at the commencement of an employment, consulting or collaborative relationship with us. However, these agreements may not provide effective protection of our technology or information or, in the event of unauthorized use or disclosure, they may not provide adequate remedies.

If we fail to negotiate or maintain successful arrangements with third parties, our development and marketing activities may be delayed or reduced.

We have entered into, and we expect to enter into in the future, arrangements with third parties to perform research, development, regulatory compliance, manufacturing or marketing activities relating to some or all of our product candidates. If we fail to secure or maintain successful collaborative arrangements, our development and marketing activities may be delayed or reduced. We may be unable to negotiate favorable collaborative arrangements that, if necessary, modify our existing arrangements on acceptable terms. Most of our agreements can be terminated under certain conditions by our partners. In addition, our partners may separately pursue

Table of Contents

competing products, therapeutic approaches or technologies to develop treatments for the diseases we have targeted. Even if our partners continue their contributions to the collaborative arrangements, they may nevertheless determine not to actively pursue the development or commercialization of any resulting products. Also, our partners may fail to perform their obligations under the collaborative arrangements or may be slow in performing their obligations. In these circumstances, our ability to develop and market potential products could be severely limited.

We face uncertainties over reimbursement and healthcare reform.

In both domestic and foreign markets, future sales of our potential products, if any, will depend in part on the availability of reimbursement from third-party payers such as government health administration authorities, private health insurers and other organizations. Third-party payers 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. Even if we were to obtain regulatory approval, our product candidates may not be considered cost-effective and adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investments in product development. Legislation and regulations affecting the pricing of pharmaceuticals may change before any of our product candidates is approved for marketing. Adoption of such legislation and regulations could further limit reimbursement for medical products and services. If the government and third-party payers fail to provide adequate coverage and reimbursement rates for our potential products, the market acceptance of our products may be adversely affected.

We may be required to defend lawsuits or pay damages in connection with the alleged or actual harm caused by our product candidates.

We face an inherent business risk of exposure to product liability claims in the event that the use of our product candidates is alleged to have resulted in harm to others. This risk exists in clinical trials as well as in commercial distribution. In addition, the pharmaceutical and biotechnology industries in general have been subject to significant medical malpractice litigation. We may incur significant liability if product liability or malpractice lawsuits against us are successful. Although we maintain product liability insurance, we cannot be sure that this coverage is adequate or that it will continue to be available to us on acceptable terms.

We use hazardous materials in our business, and any claims relating to improper handling, storage or disposal of these materials could harm our business.

Our research and development activities involve the controlled use of hazardous materials, chemicals, biological agents and radioactive compounds. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, we could be held liable for any resulting damages, and any such liability could exceed our resources. We may be required to incur significant costs to comply with these laws in the future. Failure to comply with these laws could result in fines and the revocation of permits, which could prevent us from conducting our business.

We are at risk of securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biotechnology companies have experienced greater than average stock price volatility in recent years. Several years ago, we were the subjects of a securities class action lawsuit, which was eventually dismissed with a determination that the plaintiffs had no basis for their claim. If we face such litigation in the future, it could result in substantial costs and a diversion of management s attention and resources, which could harm our business.

Table of Contents

We have implemented provisions in our charter documents that may ultimately delay, discourage or prevent a change in our management or control of us.

Our certificate of incorporation and bylaws contain provisions that could make it more difficult for our stockholders to replace or remove our directors or to effect any other corporate action. These provisions include those which:

- prohibit holders of less than ten percent of our outstanding capital stock from calling special meetings of stockholders;
- prohibit stockholder action by written consent, thereby requiring stockholder actions to be taken at a meeting of our stockholders; and
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Moreover, our certificate of incorporation does not provide for cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.

Some of the above provisions may also have possible anti-takeover effects, which may make an acquisition of us by a third party more difficult, even if such an acquisition could be beneficial to our stockholders. In addition, our certificate of incorporation also authorizes us to issue up to 20,000,000 shares of preferred stock in one or more different series with terms to be determined by our board of directors at time of issuance. As of June 30, 2002, an aggregate of 71,053 shares of preferred stock had been designated for issuance as Series A or Series B preferred stock by the board of directors and 4,991 shares of Series B preferred stock were issued and outstanding. Issuance of other shares of preferred stock could also be used as an anti-takeover device.

Risks related to this offering

Our substantial indebtedness could harm our financial condition and prevent us from fulfilling our obligations under the notes.

We have a significant amount of indebtedness, which could have important consequences to you. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in reacting to changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared with our competitors that have less debt; and
- limit, among other things, our ability to raise or borrow additional funds.

The indenture governing the notes does not limit our ability to incur additional indebtedness in the future. If new indebtedness is incurred, the related risks that we now face could intensify. Our ability to make required payments on the notes and to satisfy any other debt obligations will depend upon our future operating performance and our ability to obtain additional debt or equity financing.

Our stock price continues to experience large fluctuations, which may adversely impact your investment in the notes or our common stock.

The market price of our common stock has been and is likely to continue to be highly volatile. Fluctuations in the trading price of our common stock will affect the trading price of the notes. These price fluctuations have

Table of Contents

been rapid and severe. The market price of our common stock may fluctuate significantly in response to the following factors, most of which are beyond our control:

- variations in our quarterly operating results;
- changes in securities analysts estimates of our financial performance;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- future sales of common stock or debt securities;
- announcements by us or our competitors of technological innovations of new therapeutic products, clinical trial results and developments in patent or other proprietary rights;
- announcements regarding government regulations, public concern as to the safety of drugs developed by us or others or changes in reimbursement policies; and
- fluctuations in stock market price and volume, which are particularly common among securities of biopharmaceutical companies.

These and other conditions and factors that generally affect the market for shares of similar companies could cause the price of our common stock, and therefore the price of the notes, to fluctuate substantially over short periods.

The notes are subordinated, and holders of any senior indebtedness will be paid before holders of the notes are paid.

Except as described below in the section entitled Description of notes Security, the notes are unsecured and subordinated in right of payment to any existing and future senior indebtedness. In addition, we may incur new indebtedness, which may be senior to the indebtedness represented by the notes. We are not prohibited from incurring debt, including indebtedness secured by our assets, under the indenture governing the notes. In the event of our bankruptcy, liquidation or reorganization or upon acceleration of the notes due to an event of default under the indenture and in certain other events, our assets, other than the U.S. government securities pledged to secure the first six interest payments on the notes, will be available to pay obligations on the notes only after all of our secured indebtedness and other senior indebtedness has been paid. As a result, there may not be sufficient assets remaining to pay amounts due on any or all of the outstanding notes. For a description of the subordination provisions of the notes, see the Description of notes Subordination of the notes section of this prospectus.

You cannot be sure that a public market will develop for the notes.

On August 5, 2002, we issued the notes to the initial purchasers in a private placement. The notes are eligible to trade in PORTAL, the Private Offering, Resale and Trading through Automated Linkages Market of the National Association of Securities Dealers, Inc., a screen-based automated market for trading securities for qualified institutional buyers. However, the notes resold pursuant to this prospectus will no longer trade on the PORTAL market. As a result, there may be a limited market for the notes. We do not intend to list the notes on any national securities exchange or on the Nasdaq National Market.

A public market may not develop for the notes. Although the initial purchasers have advised us that they intend to make a market in the notes, they are not obligated to do so and may discontinue such market making at any time without notice. In addition, such market making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, we cannot assure you that any market for the notes will develop or, if one does develop, that it will be maintained. If a public market for the notes fails to develop or be sustained, the trading price of the notes could be materially adversely affected.

Table of Contents

The notes are not protected by restrictive covenants.

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture contains no covenants or other provisions to afford protection to holders of notes in the event of a change in control involving us, except to the extent described under Description of notes Repurchase at option of holders.

Our ability to repurchase the notes for cash upon a change in control is limited and the failure to do so would cause an event of default under the indenture governing the notes.

Upon the occurrence of a change in control, we will be required to offer to repurchase the notes for cash or common stock, or a combination thereof. If a change in control occurs, we may not have sufficient funds to repurchase all notes tendered by the holders of the notes in cash. The terms of any future credit facilities or other agreements relating to indebtedness may prohibit such purchases. If a change in control occurs at a time when we are prohibited from purchasing notes with cash, we could (if permitted) purchase the notes with common stock as set forth below under Description of notes Repurchase at option of holders, seek the consent of our lenders to purchase the notes with cash, or attempt to refinance the borrowings that contain such prohibitions. If we do not obtain such a consent or repay such borrowings, we would remain prohibited from purchasing notes in cash, and if we cannot or do not repurchase the notes with shares of our common stock, an event of default would occur on the notes. The occurrence of an event of default under the notes could lead to the acceleration of all amounts outstanding under the notes, and may also trigger cross-default provisions resulting in the acceleration of our other indebtedness. These events in turn could harm our share price as well as our ability to continue our operations. For more details, see the Description of notes Repurchase at option of holders section of this prospectus.

Table of Contents

USE OF PROCEEDS

The selling securityholders will receive all of the proceeds from the sale under this prospectus of the notes and the common stock issuable upon conversion of the notes. We will not receive any proceeds from these sales.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Since 1983, our common stock has traded on the Nasdaq National Market. We currently trade under the symbol SCIO. The following table sets forth the high and low reported sale prices for our common stock for the periods indicated as reported on the Nasdaq National Market.

	High	Low
2002		
First Quarter	$ 31.80	$ 19.18
Second Quarter	32.98	23.74
Third Quarter (through September 13)	32.75	21.91
2001		
First Quarter	23.88	12.50
Second Quarter	30.50	19.50
Third Quarter	23.95	13.44
Fourth Quarter	29.00	16.15
2000		
First Quarter	9.19	4.13
Second Quarter	5.91	3.38
Third Quarter	11.44	5.44
Fourth Quarter	24.63	8.75

On September 13, 2002, the last reported sale price of our common stock on the Nasdaq National Market was $25.77 per share. As of September 13, 2002, we had approximately 3,667 stockholders of record.

We have never declared or paid cash dividends on our common stock or preferred stock. We do not intend to declare or pay any cash dividends on our common stock or preferred stock in the foreseeable future. We plan to retain any earnings for use in the operation of our business and to fund future growth.

RATIO OF EARNINGS TO FIXED CHARGES

Ratios of earnings to fixed charges are computed by dividing earnings by fixed charges. For purposes of computing this ratio of earnings to fixed charges, earnings consist of pretax loss from continuing operations adjusted by adding fixed charges. Fixed charges consist of interest expense, amortization of financing costs and estimated interest component of rental expense on operating leases.

	Year ended December 31,					Six months ended June 30,
	1997	1998	1999	2000	2001	2002
Ratio of earnings to fixed charges	n/a	0.7	n/a	n/a	n/a	n/a

Earnings were insufficient to cover fixed charges by $37,483,000, $869,000, $20,050,000, $42,519,000, $62,170,000 and $47,730,000 for the fiscal years ended December 31, 1997, 1998, 1999, 2000 and 2001 and the six months ended June 30, 2002, respectively.

Table of Contents

BUSINESS

Overview

We are a biopharmaceutical company developing novel treatments for cardiovascular and inflammatory diseases. Our disease-based technology platform integrates expertise in protein biology with computational and medicinal chemistry to identify novel targets and rationally design small molecule compounds for large markets with unmet medical needs. On August 13, 2001, we launched Natrecor following FDA approval of Natrecor for the treatment of acute CHF. In addition to Natrecor, we have two focused product programs. SCIO-469 is an oral, small molecule inhibitor of p38 kinase for the treatment of RA. We completed a Phase Ib clinical trial of SCIO-469 in April 2001, and we began enrollment of a Phase IIa clinical trial in February 2002. Our second product program is focused on the development of novel and potent small molecule inhibitors of the receptor for TGF-beta, a cytokine that has been implicated in diseases characterized by chronic scar formation, or fibrosis, and is currently in preclinical development.

Recent developments

Natrecor

In August 2001, we received final approval from the FDA to market Natrecor for the intravenous treatment of patients with acute CHF. We submitted an amendment to our New Drug Application, or NDA, for Natrecor to the FDA in January 2001. The FDA s Cardiovascular and Renal Drugs Advisory Committee reviewed our amended NDA on May 25, 2001. The recommendation of that Committee was for unanimous approval of Natrecor. On July 10, 2001, we received from the FDA an approvable letter for Natrecor. The approvable letter was issued with two items to be completed: the pre-approval inspection of our facility and the final negotiations on the drug s label. During July 2001, the District Office of the FDA completed the pre-approval inspection and recommended approval of the Natrecor NDA. During August 2001, the final negotiations on the drug s label were completed.

As of July 2002, Natrecor was being used in about 80% of the approximately 2,000-targeted academic and community hospitals where approximately 80% of the acute CHF patients in the United States are treated. In addition, to enhance our hospital and physician access, we have aggressively pursued contracts with group purchasing organizations, or GPOs. These GPOs contract for hundreds of member hospitals and, as a group, assist us in gaining access for Natrecor and our cardiovascular specialists in these hospitals. Currently, we have signed GPO arrangements with Amerinet, BroadLane, Consorta, Owen, PACT and Premier. In addition to GPO agreements, we believe Kaiser Permanente has put Natrecor on the formulary for many of its Northern and Southern California hospitals. We also recently finalized a purchasing agreement with the U.S. Veteran s Administration, which allowed Natrecor to be placed on the Federal Supply Schedule.

In April 2002, we announced that Natrecor has received an Ambulatory Payment Classification, or APC, pass-through code under the Hospital Outpatient Prospective Payment System from the Centers for Medicare & Medicaid Services. The pass-through payment code for Natrecor allows Medicare reimbursement for acute CHF patients with dyspnea, or shortness of breath, at rest or with minimal activity treated with Natrecor in an outpatient setting. The reimbursement code became effective April 1, 2002.

In March 2002, we finalized the agreement with GSK to license Natrecor to GSK in all European markets. Under the terms of the agreement, GSK will have the rights to sell and distribute the product for which we received an up-front fee of approximately GB£ 3.5 million and may receive milestone payments totaling an additional GB£ 11.5 million, in addition to future royalties in the identified countries. The GB£ 3.5 million (which equaled approximately $4.9 million) we received in March 2002 has been recorded as deferred contract revenue. We will manufacture and supply the bulk product to

Table of Contents

GSK. Both companies will work together to continue clinical development of Natrecor in Europe. In order to obtain European approval for Natrecor, GSK expects to use the extensive clinical data we submitted to obtain approval from the FDA in August 2001. In collaboration with GSK, we expect to launch Natrecor in Europe in 2004.

In October 2001, we launched a nationwide registry to collect and analyze demographic and treatment data about patients hospitalized due to acute CHF. ADHERE, the Acute Decompensated HEart failure national REgistry, is expected to have a unique database of information on tens of thousands of patients gathered from approximately 300 U.S. hospitals over the next several years. We believe ADHERE will help clinicians better determine factors associated with improved clinical outcomes in acute CHF, the primary cause of more than one million hospital admissions in the U.S. each year. ADHERE should also provide comprehensive demographic and treatment data on a wide range of hospitalized heart failure patients. By tracking treatment of these patients over time, we hope to identify optimal treatment strategies and develop comprehensive acute CHF guidelines. As of July 23, 2002, over 12,000 patients had been enrolled in the ADHERE registry, which exceeds our original goal of enrolling 10,000 patients by year end.

In January 2002, we initiated the FUSION, or Management of Patients with CHF After Hospitalization with Follow Up Serial Infusions Of Natrecor, study, a multi-center, randomized, open-label pilot study that will be conducted at approximately 40 U.S. sites and will enroll 210 patients. Patients will be randomized to receive either their usual long-term cardiac medications, with or without IV inotropes, or serial infusions of Natrecor in addition to their usual long-term cardiac medications, excluding IV inotropes. All treatment groups will have weekly outpatient visits, and Natrecor patients will receive infusions for four to six hours at each weekly visit. Patients will receive study treatment for 12 weeks, followed by a one-month follow up period. Data from the FUSION study are expected to be available in the first quarter of 2003. As of July 23, 2002, 135 patients had been enrolled in the study.

p38 kinase inhibitor program

In January 2001, we completed a Phase Ia clinical trial of SCIO-469 evaluating single doses in healthy volunteers. In April 2001, we completed a Phase Ib clinical trial in 20 healthy volunteers in which we evaluated the safety and tolerability of multiple doses of SCIO-469 over a two-week period. Based on the results of these trials, we filed an Investigational New Drug application with the FDA in November 2001 for a Phase II study with SCIO-469.

In February 2002, we began enrollment in a Phase IIa clinical trial evaluating SCIO-469, our novel oral p38 kinase inhibitor, for the treatment of RA. This multi-center, randomized, placebo controlled clinical study will enroll 120 patients who have active RA and are receiving methotrexate. The main objective of the study is to evaluate the safety and tolerability of six escalating doses of SCIO-469 in RA patients. We expect to announce results from this study in the first quarter of 2003. As of July 23, 2002, 42 patients had been enrolled in the study.

In July 2002, we announced the identification of SCIO-323, which we believe to be a more potent second generation p38 kinase inhibitor that is advancing through preclinical development.

TGF-beta program

In March 2002, we added a new drug candidate to our pipeline that we believe could become the first oral inhibitor of TGF-beta. TGF-beta is a multifunctional cytokine, a signaling protein that is produced in a broad range of diseases characterized by unregulated scarring and eventual organ failure. Research has indicated that excessive activation of TGF-beta is involved in the development of scar tissue formation, which is thought to contribute to the progressive loss of function seen in a variety of

Table of Contents

conditions. Diseases in which TGF-beta may play a role include CHF, COPD, liver cirrhosis and kidney disease. Current therapies for these conditions treat symptoms exclusively or are only modestly effective in slowing disease progression.

In July 2002, we announced the lead indication for our TGF-beta compounds will be COPD.

Natrecor

Congestive heart faulure

According to the American Heart Association s *2002 Heart and Stroke Statistical Update*, approximately 4.8 million Americans currently suffer from chronic CHF and 550,000 new cases of CHF are diagnosed in the United States each year. Annual expenditures for CHF are estimated to be $21.4 billion, including $15.4 billion for inpatient care.

Chronic CHF is characterized by a progressive loss in the heart s ability to pump blood. It is attributable to weakening of the contractile cells of the heart and accumulation of scar tissue. Different diseases can cause CHF, including coronary artery disease, heart attacks, inflammation of the heart tissue and diseases of the heart valves. Weakened heart muscle often results in poor cardiac output because the heart is unable to empty blood adequately from the ventricles to the circulation with each beat. Blood pools in the ventricles, and the heart changes from its normal shape and becomes enlarged. Subsequently, blood begins to back up into the blood vessels of the lungs, causing marked increases in pulmonary vascular pressures. As pressure increases, fluid moves from the pulmonary blood vessels into the air spaces, causing pulmonary congestion. One frequently used measurement of pulmonary vascular pressure is pulmonary capillary wedge pressure, or PCWP.

CHF symptoms that result from the pooling of blood include shortness of breath, edema, or fluid retention, and swelling of the legs and feet. CHF symptoms that result from the inefficiency of the heart to distribute or adequately pump oxygen-rich blood to body tissues include fatigue and weakness as well as a loss of appetite. As the disease progresses, these symptoms can severely impact the patient s quality of life, such that even the ability to perform simple tasks, such as walking across the room, becomes limited.

In the early stages of CHF, the body activates several hormonal pathways that help the heart compensate in the short-term but have adverse long-term effects. These hormones, which include adrenalin, angiotensin II, aldosterone and endothelin, stimulate the heart to beat faster and stronger, thicken the wall of the heart and maintain blood pressure by constricting blood vessels and stimulating the kidney to retain sodium. If these pathways remain activated over a sustained period of time, the beneficial effects are lost and injurious effects develop, contributing to an eventual deterioration of heart function. Current medications and medications under development generally focus on one or more of these hormonal pathways.

Many CHF patients will eventually experience a rapid deterioration, or decompensation, and require urgent treatment in the hospital. This condition is called acute CHF. Approximately one million patients are admitted to the hospital each year in the United States with a primary diagnosis of acute CHF, and approximately two million patients are admitted to the hospital each year with a secondary diagnosis of acute CHF. Acute CHF is also the most frequent cause of hospitalization among Medicare patients. In addition, patients suffering from chronic CHF have a five-year mortality rate of approximately 50%. For more than a decade, there were no new FDA approved drugs to treat acute CHF.

Natrecor: our solution for the treatment of acute CHF

Natrecor is a recombinant form of human B-type natriuretic peptide, or BNP, a naturally occurring hormone in the body that aids in the healthy functioning of the heart. BNP is secreted by the ventricles of the heart as a response to CHF. We believe that the advantage of Natrecor, compared to other forms of therapy for acute CHF,

Table of Contents

is that it works on multiple components of the acute CHF disease pathway. In particular, based upon preclinical studies and clinical trials, we believe that Natrecor:

- dilates veins, which decreases elevated pulmonary pressures, or preload;
- dilates arteries, which decreases the resistance against which the heart has to pump, or afterload;
- stimulates the kidney to excrete excess sodium, or natriuresis;
- stimulates the kidney to excrete excess fluid, or diuresis; and
- opposes many of the injurious consequences caused by the long-term elevation of hormones such as adrenalin, angiotension II, aldosterone and endothelin.

In clinical trials, Natrecor has also been shown to significantly improve blood circulation and patient symptoms compared to standard care plus placebo without the need for labor-intensive monitoring, and its method of administration does not require frequent dosing adjustments. In addition, in clinical trials, Natrecor has not been associated with an increase in the incidence of cardiac arrhythmias and has demonstrated no evidence of drug interactions with other agents used concurrently in the treatment of acute CHF.

We have made significant progress since the FDA approved Natrecor in August 2001. We launched Natrecor immediately after approval with 168 cardiovascular salespersons coupled with two Area Business Directors and 18 Area Business Managers. As of July 2002, Natrecor was being used in about 80% of the 2,000-targeted academic and community hospitals where approximately 80% of the acute CHF patients in the United States are treated. To enhance our hospital and physician access, we aggressively pursued contracts with GPOs. These GPOs contract for hundreds of member hospitals and, as a group, assist us in gaining access for Natrecor and our cardiovascular specialists in these hospitals. Currently, we have signed GPO arrangements with Amerinet, BroadLane, Consorta, Owen, PACT and Premier. In addition to GPO agreements, we believe Kaiser Permanente has put Natrecor on the formulary for many of its Northern and Southern California hospitals. We also recently finalized a purchasing agreement with the U.S. Veteran s Administration, which allowed Natrecor to be placed on the Federal Supply Schedule.

Other treatments for congestive heart failure

While some cardiac risk factors such as smoking, high cholesterol, high blood pressure, diabetes and obesity can be controlled with lifestyle changes, the majority of patients with CHF require additional treatments to help manage their disease. Competing medications for the treatment of CHF, including diuretics, inotropes, vasodilators and beta-blockers, only focus on single components of the diverse pathways contributing to CHF. For example, diuretics help the kidneys rid the body of excess fluid, thereby reducing blood volume and the heart s workload. Inotropes strengthen the heart s pumping action. Vasodilators, such as ACE inhibitors, cause the peripheral arteries to dilate, making it easier for blood to flow. Beta-blockers slow the heart rate and reduce blood pressure by blocking the effects of adrenalin.

Upon arrival at the emergency department, patients who experience acute episodes of CHF are typically treated with a combination of oxygen, morphine and intravenous diuretics. A small percentage of patients respond to this initial therapy and do not require admission to the hospital; however, the majority of acute CHF patients require additional medical intervention and are admitted. Additional acute CHF treatments may include intravenous administration of inotropes, such as dobutamine, and vasodilators, such as nitroglycerin. While each of these therapies assist in managing acute CHF, each also has inherent limitations. Inotropes strengthen the contractility of the heart but increase the incidence of cardiac arrhythmias, or irregular heartbeats, and are associated with increased mortality. Intravenously administered nitroglycerin requires careful monitoring and slow dosage increases in small increments, resulting in delays in attaining positive responses in acutely ill patients. Moreover, therapeutically effective doses of IV nitroglycerin are:

- unpredictable from patient to patient;

Table of Contents

very close to toxic degrees of hypotension; and

associated with increased tolerance or loss of effectiveness.

These complications of IV nitroglycerin often require the transfer of acute CHF patients to more costly treatment units within the hospital, such as the cardiac and intensive care units, in order to provide careful patient monitoring.

Natrecor clinical trials

We have conducted numerous clinical trials evaluating Natrecor over the past eight years. Approximately 1,000 patients have been treated with Natrecor in 12 trials, including four pivotal efficacy and safety trials. In all of these trials, Natrecor administration has been associated with improved blood circulation and vascular filling pressures in the heart and lungs. Two of the efficacy trials further demonstrated statistically significant improvement of symptoms in acute CHF patients.

Current clinical trials

In March 2001, we initiated the PROACTION, or Prospective Randomized Outcomes Study of Acutely Decompensated Congestive Heart Failure Treated Initially in an Outpatient setting with Natrecor, trial, a pilot study in which two hundred and thirty seven patients were enrolled and treated in the emergency department or observation unit at 38 U.S. hospitals. The study was designed to compare the clinical effects, safety profile and economic impact of Natrecor plus standard therapy to placebo plus standard therapy when administered in the emergency department or observation unit. Outcomes were assessed over 30 days. We announced the results of the PROACTION pilot trial in July 2002. The study confirmed that Natrecor could be used safely in emergency departments and observation units. Results suggest that early use of Natrecor in the emergency department or observation unit may decrease the rate of initial hospital admissions and readmissions following initial hospital discharge versus standard care. These improved clinical outcomes could lead to cost reductions that neutralize the cost of Natrecor when compared to standard care alone.

In January 2002, we initiated the FUSION, or Management of Patients with CHF After Hospitalization with Follow Up Serial Infusions Of Natrecor, study, a multi-center, randomized, open-label pilot study that will be conducted at approximately 40 U.S. sites and will enroll 210 patients. Patients will be randomized to receive either their usual long-term cardiac medications, with or without IV inotropes, or serial infusions of Natrecor in addition to their usual long-term cardiac medications, excluding IV inotropes. All treatment groups will have weekly outpatient visits, and Natrecor patients will receive infusions for four to six hours at each weekly visit. Patients will receive study treatment for 12 weeks, followed by a one-month follow up period. Data from the FUSION study are expected to be available in the first quarter of 2003. As of July 23, 2002, 135 patients had been enrolled in the study.

Amended NDA submission trials

We have completed two trials since the submission of our original NDA, the VMAC trial, or Vasodilation in the Management of Acute CHF, and the PRECEDENT trial, or Prospective Randomized Evaluation of Cardiac Ectopy with Dobutamine or Nesiritide Therapy. These trials formed the basis of our amended NDA.

The VMAC trial. We began enrollment in our VMAC trial in October 1999 and, in July 2000, completed enrollment of 498 patients hospitalized for acute CHF in the United States. This trial compared the effects of Natrecor, IV nitroglycerin and placebo, when individually added to standard therapy, such as diuretics and inotropes. The primary endpoints were a reduction in pulmonary capillary wedge pressure, or PCWP a measure of the pulmonary vascular pressure of the heart, reflecting its workload and improvement of the symptom of shortness of breath. The VMAC trial achieved both of its primary endpoints. Key results of the VMAC trial that

Table of Contents

were presented in November 2000 at the annual scientific meeting of the American Heart Association include:

- Natrecor produced a 20% decrease in PCWP at three hours, most of which occurred in the first 15 minutes, which was significantly better than the 7% decrease in PCWP at three hours for the placebo group;
- Natrecor improved shortness of breath significantly better than placebo;
- Natrecor decreased PCWP significantly faster and to a greater extent than IV nitroglycerin;
- Natrecor significantly improved breathing in patients receiving placebo plus standard active therapy; in contrast, IV nitroglycerin did not significantly improve breathing in patients receiving placebo plus standard active therapy;
- Natrecor-treated patients had significantly fewer adverse events than either placebo or IV nitroglycerin patients;
- acute CHF patients experiencing active ischemia, which is impaired blood flow to the heart, showed no significant difference in adverse side effects with respect to Natrecor, compared to placebo or nitroglycerin; and
- patients receiving Natrecor did not develop tolerance to the drug over time, and consequently, the effects of Natrecor were sustained through 24 hours at the same dosage.

The PRECEDENT trial. The PRECEDENT trial compared the safety of Natrecor and dobutamine, the most commonly used inotrope treatment for acute CHF. Key results of the PRECEDENT trial indicated that:

- Natrecor produced fewer cardiac arrythmias than dobutamine; and
- use of Natrecor was associated with fewer deaths than the use of dobutamine.

p38 kinase inhibitor program

The immune system and inflammation

The immune system is composed of multiple cell types, including white blood cells, each with a specific functional role. This system is regulated by cytokines, which are proteins produced by immune system cells. When the body encounters foreign material, or when tissue injury occurs, numerous enzymes in the immune system are activated, causing the production of various inflammatory cytokines such as interleukin-1, or IL-1, and tumor necrosis factor-alpha, or TNF.

One class of the immune system s family of enzymes is the mitogen-activated protein kinases, or MAP kinases. The MAP kinases are a family of intracellular signaling enzymes that are activated when cells are either stimulated or stressed and mediate many beneficial and injurious cellular responses. One of the MAP kinases, p38 kinase, is responsible for increased production of IL-1, TNF and the inflammatory enzyme cyclooxygenase-2, or COX-2.

Autoimmune diseases occur when the body s immune system is abnormally activated against the body. In the case of rheumatoid arthritis, the immune system is activated against joint tissues. White blood cells invade the joint space, and, when activated, produce proteins such as IL-1, TNF and COX-2, which result in pain, swelling and eventual destruction of the affected joints. Other diseases that are worsened by sustained high levels of TNF and IL-1 include inflammatory bowel disease and CHF. We believe that patients treated with an oral p38 kinase inhibitor could experience a reduction in both the symptoms and the progression of inflammatory diseases since it could inhibit the production of IL-1, TNF and COX-2.

Current therapy for autoimmune and inflammatory diseases

Currently, there is no cure for, or prevention of, autoimmune disease. Optimal medical management requires the early introduction of therapies in order to prevent the long-term effects of the disease. In the case of RA,

Table of Contents

long-term effects include irreversible joint damage and hypertrophy of joint tissues limiting a patient s ability to move the affected joints.

Traditionally, initial drug treatment of inflammatory diseases involves the use of non-steroidal anti-inflammatory agents. Steroids, such as glucocorticoids, are often added as the disease or symptoms progress. Although these agents help patients increase function and improve symptoms, they do not stop progression of the disease. Moreover, these drugs have been demonstrated to cause both stomach and kidney problems. In addition, persistent steroid treatment may result in excess suppression of the immune system, which can lead to infection, decreased bone marrow function and osteoporosis. Recently, more selective anti-inflammatory agents, or COX-2 inhibitors, such as Celebrex and Vioxx, have been introduced for symptom relief; however, they do not alter the progression of inflammatory disease. Sales of COX-2 inhibitors for the treatment of inflammatory disease were approximately $4.8 billion in 2000.

More powerful drugs exist for patients that do not respond to initial drug therapy. In the case of RA, drugs such as methotrexate, hydroxychloroquine and sulfasalazine can have individual side effects, which must be monitored closely, and a delay of one to six months for a clinical response is common.

Within the past four years, inhibition of inflammatory cytokines has become an established treatment for autoimmune disease. In the case of RA, two new protein therapeutics, Enbrel and Remicade, were introduced to inhibit the effects of TNF. Combined U.S. sales of these agents totaled approximately $1.5 billion in 2001. These treatments have been shown to be effective at arresting the progression of the disease; however, they must be given by injection or infusion on a repeated basis. Resistance to the treatment is also an issue with these new drugs. This is due in part to increasing production by a patient s immune system of antibodies that neutralize administered proteins.

We are focusing our initial drug development efforts on creating an orally available small molecule drug for the treatment of RA. The Arthritis Foundation estimates that approximately 2.1 million Americans currently suffer from RA. Decision Resources, an independent market research group, suggests that the global market for RA therapies will be approximately $6.6 billion by 2009, up from almost $1.5 billion in 1999. RA patients generate more than nine million physician office visits and more than 250,000 hospitalizations each year. It is estimated that, in aggregate, the average yearly earnings deficit for all working individuals with RA is approximately $6.5 billion.

SCIO-469: our p38 kinase inhibitor for the treatment of inflammatory diseases

SCIO-469 is a novel oral, small molecule compound designed to inhibit p38 kinase. Oral administration allows for careful dosage adjustment, which may permit the physician to inhibit TNF sufficiently to obtain a useful therapeutic effect without subjecting the patient to the risk of infection associated with complete TNF inhibition.

Preclinical studies. In preclinical studies of acute and chronic inflammatory arthritis, orally administered doses of SCIO-469 reduced cellular production of COX-2 in a dose-dependent manner and reduced COX-2 and TNF levels in whole blood assays. Statistically significant reductions in inflammation also were observed in animal models of arthritis. In October 2000, we presented preclinical data involving our p38 kinase inhibitors at the annual scientific meeting of the American College of Rheumatology. The study demonstrated that our p38 kinase inhibitors had statistically significant anti-inflammatory effects in both acute and chronic animal models of inflammation.

Clinical trials. In January 2001, we completed a Phase Ia clinical trial of SCIO-469 evaluating single oral doses in healthy volunteers. This Phase Ia clinical trial enrolled 30 volunteers. In April 2001, we completed a

Table of Contents

Phase Ib clinical trial with 20 healthy volunteers in which we evaluated the safety and tolerability of multiple doses of SCIO-469 over a two-week period. Based on the results of these trials, we initiated a Phase IIa clinical trial with RA patients in February 2002. This multi-center, randomized, placebo-controlled clinical study will enroll 120 patients who have active RA and are receiving methotrexate. The main objective of the study is to evaluate the safety and tolerability of six escalating doses of SCIO-469 in RA patients. We expect to announce results from this study in the first quarter of 2003. As of July 23, 2002, 42 patients had been enrolled in the study.

TGF-beta program

In March 2002, we announced the addition of a new drug candidate that we believe could become the first oral inhibitor of TGF-beta. TGF-beta is a multifunctional cytokine, a signaling protein that is produced in a broad range of diseases characterized by unregulated scarring and eventual organ failure. Research has indicated that excessive activation of TGF-beta is involved in the development of scar tissue formation, which is thought to contribute to the progressive loss of function seen in a variety of conditions. Diseases in which TGF-beta may play a role include CHF, COPD, liver cirrhosis and kidney disease. Current therapies for these conditions treat symptoms exclusively or are only modestly effective in slowing disease progression.

We have developed novel and potent small molecule inhibitors that are designed to block activation of the TGF-beta receptor. They have been shown in our preclinical studies to be effective in reducing scar formation or fibrosis when given orally to animals. We expect to advance two lead molecules representing different chemical classes through preclinical development. In July 2002 we announced the lead indication for these compounds will be COPD, which refers to a number of chronic lung disorders that restrict normal lung function. The most common forms of COPD are chronic bronchitis and emphysema.

Strategy

We are focused on developing and commercializing novel pharmaceutical products that address large market opportunities with unmet medical needs, initially in the areas of cardiovascular and inflammatory disease. Key elements of our strategy include:

Maximizing the near-term commercial opportunities for Natrecor. Natrecor is the first drug to be approved by the FDA for the treatment of acute CHF in over a decade. Since FDA approval of Natrecor in August 2001, we have built a focused 189-person sales force dedicated to establishing Natrecor as the standard of care. We also expect to begin marketing Natrecor in Europe in 2004 in collaboration with GSK.

Expanding the commercial opportunities for Natrecor. We plan to expand the market opportunities for Natrecor including its use in additional clinical settings. In April 2002, we announced that Natrecor has received an Ambulatory Payment Classification, or APC, passthrough code under the Hospital Outpatient Prospective Payment System from the Centers for Medicare & Medicaid Services. We also plan to pursue additional clinical settings for Natrecor including its use in serial outpatient infusions. For example, in January 2002 we initiated the FUSION study, a multi-center, randomized, open-label pilot study that will be conducted at approximately 40 U.S. sites and will enroll 210 patients.

Advancing the development of our small molecule therapeutics program. We plan to continue to add state-of-the-art technologies to enhance our ability to develop small molecule therapeutics in addition to our traditional strengths in developing protein therapeutics. The major advantages of small molecule therapeutics are the potential for oral administration, the ability to adjust dosing to maximize efficacy and minimize toxicity and the ease and cost of manufacturing. We recently began Phase IIa trials of SCIO-469, an oral, small molecule inhibitor of p38 kinase that we are developing for the treatment of RA. In addition, we are pursuing the development of oral small molecule inhibitors of the TGF-beta receptor for a broad range of clinical indications, the first of which will be COPD.

Table of Contents

Broadening our product portfolio through license or acquisition. We believe that we can leverage our Natrecor-dedicated sales force by marketing additional products to the acute care market. We are evaluating the licensing or acquisition of additional product candidates, several of which are in the areas of cardiovascular and inflammatory disease. We may also acquire additional technologies or businesses that we believe will enhance our research and development capabilities.

Collaborating selectively with biotechnology and pharmaceutical companies. As we expand certain aspects of our development pipeline, we intend to partner with biotechnology and pharmaceutical companies in order to gain access to additional research and development or marketing expertise. Our approach to partnership will be on a selective basis, seeking to maintain the highest possible value of our product candidates. In order to accomplish this task, we intend to delay partnering of any product until its clinical utility has been established.

Marketing and sales Natrecor

Natrecor education

We continue to build awareness for Natrecor among key target audiences through a variety of tactical programs including medical seminars, continuing medical education programs, advisory boards and publications. At June 30, 2002, we had hired 16 Scientific Affairs Managers and a Director of Scientific Affairs who are focused on educating physicians on diseases of the cardiovascular system and building relationships with opinion-leading cardiologists. We continue to identify and develop relationships with physicians and nurses who play a leading role in the diagnosis and treatment of CHF.

In addition, we launched a nationwide registry to collect and analyze demographic and treatment data about patients hospitalized due to acute CHF. ADHERE, the Acute Decompensated HEart failure national REgistry, is expected to have a unique database of information on tens of thousands of patients gathered from approximately 300 U.S. hospitals over the next several years. We believe ADHERE will help clinicians better determine factors associated with improved clinical outcomes in acute CHF, the primary cause of more than one million hospital admissions in the United States each year. ADHERE should also provide comprehensive demographic and treatment data on a wide range of hospitalized heart failure patients. By tracking treatment of these patients over time, we hope to identify optimal treatment strategies and develop comprehensive acute CHF guidelines.

Sales force team

We have a dedicated cardiology and emergency medicine sales force consisting of two Area Business Directors, 18 Area Business Managers and 169 cardiovascular salespersons. Our management team and sales force have extensive experience in and have been involved in the successful commercialization of therapies in the acute care setting. Our current team of 189 persons is the largest sales force solely dedicated to the acute CHF market.

Group purchasing organizations (GPOs)

To enhance our hospital and physician access, we have aggressively pursued contracts with GPOs. These GPOs contract for hundreds of member hospitals and, as a group, assist us in gaining access for Natrecor and our cardiovascular specialists in these hospitals. We currently have signed GPO arrangements with Amerinet, BroadLane, Consorta, Owen, PACT and Premier. In addition to GPO agreements, we believe Kaiser Permanente has put Natrecor on the formulary for many of its Northern and Southern California hospitals, and we have entered into a purchasing agreement with the U.S. Veteran s Administration, which allowed Natrecor to be placed on the Federal Supply Schedule.

GlaxoSmithKline agreement

In March 2002, we finalized a license and supply agreement with Glaxo Group Ltd., an affiliate of GSK, to license Natrecor to GSK in all European markets. Under the terms of the agreement, GSK will have the rights to

Table of Contents

sell and distribute the product for which we received an up-front fee of approximately GB£ 3.5 million and may receive milestone payments totaling an additional GB£ 11.5 million, in addition to future royalties in the identified countries. We will manufacture and supply the bulk product to GSK. Both companies will work together to continue clinical development of Natrecor in Europe. In order to obtain European approval for Natrecor, GSK expects to use the extensive clinical data we submitted to obtain approval from the FDA in August 2001. The companies expect to launch Natrecor in Europe in 2004. The up-front fee of GB£ 3.5 million (which equaled approximately $4.9 million U.S. dollars) we received in March 2002 has been recorded as deferred contract revenue.

Our agreement with Innovex

In January 2001, we entered into a sales and marketing alliance with Innovex, a subsidiary of Quintiles Transnational Corp. As part of the original three and one half year agreement, PharmaBio Development, Inc., an affiliate of Innovex, agreed to fund $30.0 million of our costs to launch Natrecor over the first 24 months of the commercialization of Natrecor and to loan us up to $5.0 million. In December 2001, Scios, Innovex and PharmaBio amended the January 2001 agreement. The amendment enables us, at our option, to assume control of the Natrecor sales force in June 2003, one year ahead of schedule, and eliminates the $5.0 million line of credit provided by PharmaBio to us. In June 2002, we informed PharmaBio and Innovex of our intention to assume control of the sales force one year ahead of schedule in June 2003. Of the $30.0 million funding from PharmaBio, we have received $17.1 million through June 30, 2002, and will receive the remaining $12.9 million over the next 11 months. As part of the funding agreement, we pay PharmaBio a declining royalty rate on net sales of Natrecor through early 2008. As of June 30, 2002, we have paid PharmaBio $0.9 million in payments. We also granted PharmaBio a fully vested warrant to purchase 700,000 shares of our common stock at an exercise price of $20.00 per share. These warrants are exercisable in seven installments from December 2001 through May 2003.

Manufacturing, order management and distribution

Our products are manufactured for us by third parties. In 1995, we entered into an agreement with BioChemie GmbH in Austria for the manufacture of the bulk active pharmaceutical ingredient, or API, in Natrecor. We expect the agreement to run through 2009. BioChemie ships the bulk API in powder form to Abbott Laboratories in McPherson, Kansas, where it is blended, filled and packaged for shipment. Abbott ships the finished product to UPS Logistics Group, where it is stored for distribution to various wholesalers. We also maintain arrangements with several companies to manufacture our p38 kinase inhibitor compounds and intend to enter into a long-term supply relationship if our compounds continue to proceed through development.

We sell finished Natrecor directly to approximately 35 wholesalers through UPS Logistics Group, our distributor and inventory manager, based on purchase orders that UPS Logistics Group receives from the various wholesalers. Wholesalers sell Natrecor directly to hospitals. As of June 30, 2002, four wholesalers accounted for approximately 90% of our total Natrecor sales.

Licensing arrangements with third parties

We have licensed some of our product candidates to third parties, who are now responsible for product development. Under these arrangements, we typically receive a combination of up-front payments, milestone payments upon their achievement of scientific and clinical benchmarks and royalties on commercial sales of products by our partners.

BNP

In 1998, we entered into a cross-license agreement with Shionogi under which we granted Shionogi a royalty-free, nonexclusive license to our BNP patent rights for the diagnostic field. In exchange, Shionogi

Table of Contents

granted us a royalty-bearing, exclusive license under Shionogi s BNP patents to develop therapeutic products. For therapeutic products, we pay royalties on net sales for the life of the patent in countries where Shionogi holds one or more BNP patents. In countries where Shionogi has no issued patent covering BNP, but one or more pending patent applications which cover BNP, we are obligated to pay a reduced royalty on the net sales of our therapeutic products during the pendency of such applications, up to a maximum of four years following commencement of our sales in the country where such applications are pending, after which the royalty obligation shall cease, unless and until the pending applications result in one or more issued claims covering BNP, in which case we would be obligated to pay the full royalty from the date of patent issuance until the expiration or invalidity of the BNP patents in question. Shionogi holds patents relating to BNP in Japan and Europe.

We have licensed to Biosite Diagnostics and Abbott Laboratories the right to use our patents on BNP for diagnostic purposes. Biosite has developed and is currently marketing a point-of-care diagnostic test for BNP levels in the United States and Europe. This test is used to identify individuals with CHF or to monitor progression of their disease or their response to treatment. We are currently receiving royalties from Biosite on the sales of their diagnostic products. We also receive periodic milestone payments from Abbott as it continues to develop its BNP diagnostic product.

Fibroblast growth factor

In 1982, Biotechnology Research Partners, Ltd., a California limited partnership, or BRP, was formed primarily to conduct research and experimentation in the field of biotechnology and to develop and produce from genetically engineered micro-organisms or cells new products that have potential pharmaceutical and other commercial applications. Out of this research, fibroblast growth factor, or FGF, was discovered. FGF is a naturally occurring protein, which stimulates the growth of new blood vessels. In 1988, we licensed the FGF technology to Kaken Pharmaceutical.

In April 2001, Kaken received approval from the Japanese Ministry of Health and Welfare to market an FGF-based product for the treatment of recalcitrant dermal ulcers in Japan. As part of the partnership agreement for BRP, BRP and Scios share in the royalties from product sales of FGF. During 2001, we received royalties on sales of FGF-based products by Kaken in Japan. The distributions of the royalty payments were approximately 63% to Scios and 37% to the limited partners of BRP. Costs and expenses are shared in this same percentage for audit, legal, and general and administrative expenses. Scios R&D, Inc., a wholly owned subsidiary of Scios, owns 100% of BRP, Inc., the general partner of BRP. Scios owns approximately 59% of BRP and consolidates the results of BRP in its financial statements.

In November 1999, we granted a license to Chiron covering rights to FGF in the areas not previously licensed by us. We may receive up to $12.0 million in milestone payments upon Chiron s completion of certain development objectives. In addition, we will receive royalties based on sales of FGF products in countries where we hold patents. Chiron has completed separate Phase II human clinical trials evaluating FGF as a treatment for coronary artery and peripheral vascular disease.

We have also granted nonexclusive licenses under our FGF patents and technology to Orquest for the development of products for the treatment of bone fractures.

We are obligated to make payments to Organon International based on amounts received by us upon commercialization of FGF. Approximately $0.2 million remains to be paid under this obligation, which stems from our 1989 reacquisition of certain FGF rights previously licensed to Organon.

Vascular endothelial growth factor121

VEGF121 is a naturally occurring protein used to stimulate the growth of new blood vessels. In May 1996, we granted a license to GenVec for the use of the gene encoding VEGF121 in gene therapy products. GenVec is currently conducting Phase II clinical trials of its BIOBYPASS angiogen, which incorporates the use of our

Table of Contents

licensed technology. This product is being evaluated to treat coronary artery disease and peripheral vascular disease. We will receive royalties on any future sales of these products.

Glucagon-like peptide-1

GLP-1 is a potent peptide that stimulates insulin release when blood sugar levels are above normal. In 1988, we licensed from Massachusetts General Hospital the exclusive use of certain patent applications for GLP-1 and certain analogs upon which we will pay a royalty on any future sales. In 1996, we granted Novo Nordisk an exclusive license to our GLP-1 technology and the additional rights we acquired pursuant to the Massachusetts General Hospital license. We will receive royalties on product sales made by Novo Nordisk. Novo Nordisk is responsible for development activities for GLP-1 and has initiated Phase II human clinical trials of a GLP-1 analog that they are developing as a treatment for Type 2 diabetes.

Alzheimer s disease

We have concluded separate research collaborations with Eli Lilly and with DuPont Pharmaceuticals to develop new therapies for Alzheimer s disease. The joint research phase of our collaboration with DuPont ended in November 2000. The joint research phase of our collaboration with Eli Lilly ended December 31, 2001. Under the Eli Lilly agreement, we are entitled to receive potential milestone payments if certain events are achieved, and Eli Lilly is entitled to commercialize any resulting products subject to royalty payments to us. Following the DuPont and Eli Lilly collaborations, we have decided to discontinue further substantial research efforts relating to identification and characterization of proteins and biological mechanisms implicated in Alzheimer s disease.

Drug delivery systems

Prior to our acquisition of Nova Pharmaceuticals in 1992, Nova had been developing several drug delivery systems, including the Gliadel implant to treat primary brain cancer. The Gliadel technology was developed pursuant to a license agreement with the Massachusetts Institute of Technology relating to MIT s Biodel drug delivery technology. We licensed Gliadel to Guilford Pharmaceuticals in 1994. Gliadel was approved for marketing in the United States in 1996. We assigned our Biodel license rights back to MIT, which administers the licensing of this technology, including the license with Guilford. We and MIT are receiving royalty and milestone payments under the license agreement with Guilford. We conducted the Gliadel project on behalf of Nova Technology Limited Partnership, the limited partnership that funded Nova s research and development on these projects. In December 1992, we exercised our option to acquire all interests in Nova Technology Limited Partnership for $20.4 million. We also issued contingent payment rights to all limited partners of the partnership, pursuant to which we are obligated until January 15, 2008 to pay royalties on the sale or license of certain products that were under development by the partnership.

Psychiatric sales and marketing division

Since 1990, our Psychiatric Sales and Marketing Division, or PSMD, had the exclusive right to market certain products in the United States under a licensing agreement with GSK, including Eskalith and Eskalith CR, Thorazine, Stelazine, and Parnate. GSK was responsible for the manufacture and distribution of these products. As part of our agreement with GSK, we paid GSK 40% of our net profits from the sales of these products. We sold the marketing rights back to GSK and terminated the licensing agreement effective March 31, 2001. We received from GSK $4.0 million in 2001 and $3.0 million in 2002, and expect to receive a final payment of $2.4 million in 2003.

Research and development

Our technical capabilities now include disease-based gene microarrays, bioinformatics, structural informatics and state-of-the-art medicinal chemistry, including computational chemistry modeling, all of which have added to our traditional technical strengths in protein cloning and expression.

Table of Contents

In order to discover new pathways of disease, our research has assembled tissue samples from a broad array of human and experimental diseases of the cardiovascular system. We analyze these tissues for the expression of new genes that may be involved in particular diseases. We do this by a technique known as microarray gene display, in which fluorescent tags identify which genes may be up regulated or down regulated during the course of a particular disease. We then apply commercial and proprietary software analysis to the sequence of these genes and to the patterns of their expression in order to highlight cellular pathways that may be playing a particular role in a disease process. This process is known as bioinformatics.

Particular attention is paid either to the presence of a known enzyme participating unexpectedly in a disease process or to a novel enzyme. Our molecular biologists then express these candidate target enzymes in an activated state as pure proteins and develop high throughput screening assays to discover inhibitors of those enzymes within our chemical compound library, which we have developed over the last several years. Applying the tools of structural informatics, our protein chemists develop computer-based, three-dimensional structures of these enzymes that guide our chemists in developing lead inhibitory molecules with respect to potency and selectivity. Once we have brought a drug candidate to the optimum level of potency and safety, we test the drug at both the cellular and animal level, again applying gene microarray technology. This allows the rapid evaluation of the drug for efficacy while ensuring that potential toxicities are minimized before testing in the clinic.

We are focused on diseases of the cardiovascular system, with a particular emphasis on inflammation in both its acute and chronic forms and scarring as a cause of chronic organ failure. Our research has emphasized an emerging family of protein therapeutic targets known as protein kinases. Kinases are naturally occurring intracellular signaling switches that work by attaching phosphate groups to other proteins, thereby activating cellular processes controlled by those proteins, including the transcription of new proteins. While the vast majority of protein kinases are engaged in beneficial work on behalf of the cells of the body, medical research over the last decade has clearly demonstrated that cellular pathways abnormally activated by certain kinases contribute to both the symptoms and progression of many diseases. By applying the most advanced technologies available with proprietary methodology, including the development of gene analysis software, we have dedicated ourselves to the identification of kinases participating in diseases within our strategic focus and developing and testing inhibitors of those enzymes for potential therapeutic value. The rapid preclinical and clinical development of our p38 kinase inhibitor, SCIO-469, and our preliminary advances in our TGF-beta program represents the initial success of this innovative approach.

Our aggregate research and development expense totaled $48.1 million in 2001, $39.3 million in 2000, and $34.3 million in 1999.

Patents and proprietary rights

We seek patent protection for proprietary technology and products in the United States and abroad to prevent others from unfairly capitalizing on our investment in research. Other companies engaged in research and development of new healthcare products also actively pursue patents for their technologies. We also rely upon trade secrets and know-how to reinforce our competitive position. However, trade secret protection will not preclude others from independently developing technology similar to ours, nor can there be any assurance that third parties that have signed confidentiality agreements with us will honor those agreements.

We currently own or hold exclusive rights to 89 issued U.S. patents and 53 U.S. pending patent applications covering our proprietary technology and products. We also own or hold exclusive rights to foreign patents and patent applications corresponding to most of the U.S. patents and patent applications in our portfolio. Our issued patents include patents on Natrecor, certain of our p38 kinase inhibitors, FGF, VEGF121 and GLP-1. Our proprietary position with respect to certain principal products under development is described below. If a patent issues prior to marketing approval, as has been the case with all of our issued patents to date, we can apply for extension of the patent term for a limited period of time to make up for a portion of the patent term lost to the regulatory approval period. The absence of a patent covering products, which we have licensed to third parties, could reduce the royalties due to us under the agreements with those parties.

Table of Contents

Natrecor

We have been issued United States, Canadian and European patents covering the endogenous form of Natrecor, human BNP. Our U.S. patents on Natrecor are subject to possible extension due to time taken up in the regulatory approval process. We believe our key patent on Natrecor, which currently expires in May 2009, may be extended to late 2013 or early 2014. Pursuant to a royalty-bearing, exclusive license granted to us by Shionogi, we also have the exclusive right to develop therapeutic products using BNP under certain patents and applications on BNP originally filed by Daiichi Pharmaceutical and subsequently acquired by Shionogi. Shionogi holds patents in Japan and Europe. We believe that Shionogi may have a patent application pending in the United States. Although we were granted a Japanese patent on BNP, the patent was revoked in 1998 in an opposition filed against the patent by an unidentified party. The opposition did not challenge the originality of our BNP discovery but based its challenge solely on an interpretation of utility requirements for patentability peculiar to Japanese patent law. We appealed the revocation to the Tokyo High Court. On March 13, 2001, the Tokyo High Court affirmed the revocation. We petitioned the Supreme Court of Japan for the right to appeal the decision of the Tokyo High Court, but our petition was rejected. In June 2002 we were informed by our Japanese counsel that the Supreme Court s decision precludes further appeals in the Japanese Patent Office. The decision does not affect our patent rights outside of Japan, nor does the revocation impact our ability to exclusively market BNP in Japan insofar as our exclusive license under the patent rights of Daiichi includes several Japanese patents of Daiichi directed to BNP.

p38 kinase inhibitors

We have filed a series of patent applications in the United States covering the classes of p38 kinase inhibitors that we have identified. To date, we have been issued three U.S. patents directed to certain of these p38 kinase inhibitors. These patents will expire in 2018, subject to possible extension for FDA regulatory delays. While the classes of small molecule compounds identified by our researchers appear to be unique, we are aware that other companies are also working to develop p38 kinase inhibitor compounds, and have filed patent applications on and received patents covering certain classes of compounds that these competing companies have identified and covering various aspects of identifying such compounds.

TGF-beta inhibitors

Our patent portfolio directed to small molecule kinase inhibitors includes pending and issued U.S. patent applications directed to the TGF-beta inhibitors we have identified, including those we believe have the greatest potential for commercial development. To date we have two issued U.S. patents and four pending U.S. patents directed to our TGF-beta inhibitors. The issued patents will expire in 2018, and we expect the pending applications, if issued, to have the same expiration. If we obtain FDA approval to market and sell one or more TGF-beta inhibitors, certain of our patents directed to these compounds may be extended based on regulatory delays in obtaining FDA approval.

FGF

After an interference with The Salk Institute for Biological Studies, we were awarded a U.S. patent on DNA sequences, expression vectors, and microorganisms used in the recombinant production of human basic FGF. Our basic FGF U.S. patent will expire in 2012, and it may be extended for FDA regulatory delays. We also hold European and Japanese patents on human basic FGF. Synergen, now owned by Amgen, has obtained patents directed to a form of FGF that we believe is different from the form of FGF produced by us. A U.S. patent issued to Salk contains claims directed to substantially pure mammalian basic FGF containing the 146 amino acid sequence of bovine basic FGF or a naturally occurring homologous sequence of another mammalian species. Although we have been advised by counsel that the Salk patent would be invalid if read broadly enough to cover our form of FGF, there is still risk that an assertion of this patent could block our partners ability to develop and market human basic FGF in the absence of a license, or if such a license is granted, could reduce the royalty

Table of Contents

income to us. We opposed Salk s European patent, which resulted in revocation of the patent. Salk appealed the revocation. In February 2002, the Technical Board of Appeal agreed with the grounds of appeal and entered its decision to maintain the patent as granted. Our European patent was opposed by Chiron and Pharmacia. Our patent was upheld and both opponents appealed. As a result of our license to Chiron, Chiron, who is also a licensee of Salk, withdrew from the opposition against our European patent, and we have withdrawn from our opposition against the Salk patent.

In March 1994, we obtained a non-exclusive license to make, use and sell FGF under a U.S. patent issued to Harvard University containing claims to purified cationic (basic) FGF. The Harvard patent is based on a patent application having a filing date earlier than the application that formed the basis for the Salk patent. Sublicense rights under this patent are included in the rights granted by us to our FGF licensees, Kaken and Chiron.

$VEGF_{121}$

Seven isoforms of human VEGF (hVEGF) are known, having 121, 145, 148, 165, 183, 189 and 206 amino acids, respectively. We believe that our researchers were the first to identify, clone and produce by recombinant DNA technology the 121 amino acid form of hVEGF (hVEGF121). hVEGF121 is the only human VEGF isoform known not to bind to heparin. We own two U.S. patents issued in 1993 covering hVEGF121, and in 1996 received a European patent covering this VEGF isoform. Our U.S. patents on VEGF121 will expire in 2010 but may be extended for FDA regulatory delays. We have patent applications pending in Canada and Japan. Other companies and institutions, including Genentech, Pharmacia and the Regents of the University of California, hold patents and pending patent applications claiming various isoforms of hVEGF and certain VEGF variants.

Competition

For patients treated with acute CHF, many therapeutic options are available. Competing drugs fall into three main categories: vasodilators, inotropes and diuretics. Natrecor, approved for marketing in August of 2001, competes against both vasodilators and inotropes in the acute CHF market. Many of the currently marketed drugs are available in generic formulation and have an associated low cost. In addition, milrinone, an inotrope promoted by Sanofi-Synthelabo, lost patent protection in May 2002. Natrecor has been priced above the cost of these existing drugs, which may harm our competitive position relative to these drugs. The higher cost of Natrecor may prevent us from being able to compete effectively with these long-standing existing forms of therapy.

New drugs in development for the treatment of acute CHF would compete with Natrecor if approved by the FDA or other regulatory agencies. Veletri, a non-selective endothelin receptor antagonist, is being developed by Actelion. Actelion recently completed Phase II clinical trials with Veletri as a vasodilator for the treatment of acute CHF. Based on the results of the Phase II clinical trials, Actelion announced in September 2002 that it intends to proceed with a Phase III trial with Veletri to evaluate mortality and morbidity benefits. Abbott had previously submitted an NDA for Simdax, a calcium sensitizer described as an inotrope, but withdrew the application in 2000. However, we understand that Abbott is currently in Phase III development of this product.

We are aware of several pharmaceutical and biotechnology companies that are actively developing or have commercialized products addressing the same disease indication as our p38 kinase inhibitor. Current commercial competition for RA treatments include generic methotrexate, the injectible TNF inhibitors such as Centocor s Remicade and Immunex s Enbrel and the recent launch of Amgen s interleukin-1 inhibitor Kineret (anakinra). In addition, competition will result from the most often prescribed drugs to treat RA, the non-steroidal antiinflammatory drugs such as ibuprofen and the COX-2 inhibitors such as Pharmacia s Celebrex and Merck s Vioxx. These drugs are palliative only and do not reverse or prevent the progression of the disease.

In addition, we are aware of pharmaceutical and biotechnology companies that are specifically developing p38 kinase inhibitors for treating RA. In 2001, Vertex Pharmaceuticals suspended the development of its lead oral p38 kinase inhibitor compound indicated for RA. Vertex initiated clinical trials with two back-up

Table of Contents

compounds during 2002. Many of these companies, including Boehringer Ingleheim and Vertex, possess both greater access to capital and research and development resources. We may be unable to compete effectively with any of these development projects. If we are successful in developing our own p38 kinase inhibitor compound we may face intense competition.

We expect that competition for our products, when approved for sale, will be based, among other things, on efficacy, reliability, product safety, price and patent position. Our ability to compete effectively and develop products that can be manufactured cost-effectively and marketed successfully will depend on our ability to:

advance our technology platforms;

license additional technology;

maintain a proprietary position in our technologies and products;

obtain required government and other public and private approvals on a timely basis;

attract and retain key personnel; and

enter into corporate partnerships.

Our failure to achieve any of the above goals could impair our business.

Government regulation

Pharmaceutical drugs are subject to extensive pre- and post-market regulation by the FDA, including regulations that govern the testing, manufacturing, safety, efficacy, labeling, storage, record keeping, advertising, and promotion of the products under the Federal Food Drug and Cosmetic Act. The process required by the FDA before a new drug may be marketed in the United States generally involves the following: completion of preclinical laboratory and animal testing; submission of an investigational new drug application, which must become effective before clinical trials may begin; performance of adequate and well controlled human clinical trials to establish the safety and efficacy of the proposed drug products intended use; and approval by the FDA of an NDA.

Human clinical trials are typically conducted in three sequential phases that may overlap. These phases generally include the following: Phase I during which the drug is introduced into healthy human subjects or, on occasion patients, and is tested for safety, dose tolerance and metabolism; Phase II during which the drug is introduced into a limited patient population to determine the efficacy of the product for specific targeted diseases, to determine dosage tolerance and optimal dosage and to identify possible adverse effects and safety risks; and Phase III during which the clinical trial is expanded to a more diverse patient group in geographically dispersed clinical trial sites to further evaluate clinical efficacy, optimal dosage and safety. The FDA, and the Institutional Review Board at each institution at which a clinical trial is being performed, may suspend a clinical trial at any time for various reasons, including a belief that the subjects are being exposed to an unacceptable health risk.

The results of product development, preclinical animal studies and human studies are submitted to the FDA as part of the NDA. The NDA also must contain extensive manufacturing information. The FDA does allow under certain circumstances for the joint manufacturing of drug products. The FDA may approve or disapprove the NDA if applicable FDA regulatory criteria are not satisfied or it may require additional clinical data. Once approved, the FDA may withdraw the product approval if compliance with pre- and post-market regulatory standards is not maintained or if problems occur after the product reaches the marketplace. In addition, the FDA may require post-marketing studies, referred to as Phase IV studies, to monitor the effect of approved products, and may limit further marketing of the product based on the results of these postmarket studies. The FDA has broad post-market regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products, and withdraw approvals.

Facilities used to manufacture drugs are subject to periodic inspection by the FDA and other authorities where applicable, and must comply with the FDA s Good Manufacturing Practice regulations. Failure to comply with the statutory and regulatory requirements subjects the manufacturer to possible legal action, such as

Table of Contents

suspension of manufacturing, seizure of product or a voluntary recall of a product. Adverse experiences with the product must be reported to the FDA and could result in the imposition of market restrictions through labeling changes or in product removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval.

With respect to post-market product advertising and promotion, the FDA imposes a number of complex regulations on entities that advertise and promote pharmaceuticals, which include, among others, off-label promotion, industry sponsored scientific and educational activities, standards and regulations for direct-to-consumer advertising, and promotional activities involving the Internet. The FDA has very broad enforcement authority under the Federal Food Drug and Cosmetic Act, and failure to abide by these regulations can result in penalties including the issuance of a warning letter directing a company to correct deviations from the FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA, and state and federal civil and criminal investigations and prosecutions.

We are also subject to various laws and regulations regarding laboratory practices, product manufacturing, including the FDA s current Good Manufacturing Practice requirements, the experimental use of animals, and the use and disposal of hazardous or potentially hazardous substances in connection with our research. In each of these areas, the FDA has broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products, and withdraw approvals, any one or more of which could harm our business. Additionally, before any of our products may be marketed in foreign countries, they are subject to pre- and post-market regulation similar to that required in the United States.

Employees

We had 469 full-time employees as of June 30, 2002.

Department	Employees
Sales representatives and management deployed in the field	188
Sales operations and marketing	16
Research and development	211
General and administrative	54
Total	469

We believe our employee relations are good. None of our employees is subject to a collective bargaining agreement.

Properties

We lease a 52,000 square foot office building in Sunnyvale, California pursuant to two leases which both expire on August 31, 2008. We also lease three neighboring 33,600, 7,200 and 8,400 square foot office buildings, all of which expire on December 31, 2003. Our annual lease payments for the Sunnyvale facilities are approximately $2.0 million. In addition, we lease a warehouse in Mountain View, California that expires on December 31, 2003. In August 2002, we entered into two leases for two buildings in Fremont, California, totaling approximately 190,000 square feet. Our annual lease payments for the Fremont facilities will be approximately $3.2 million commencing in September 2003.

Table of Contents

MANAGEMENT

Our executive officers and directors and their ages at July 23, 2002 are as follows:

Name	Age	Position
Richard B. Brewer	51	President, Chief Executive Officer and Director
George F. Schreiner, M.D., Ph.D.	53	Chief Scientific Officer
David W. Gryska	46	Senior Vice President, Finance and Chief Financial Officer
Patricia A. Baldwin, Ph.D.	46	Vice President, Quality and Product Development
Thomas L. Feldman	52	Vice President, Sales and Marketing
M. Allison Herd	41	Vice President, Human Resources
Matthew R. Hooper	44	Vice President and General Counsel
Darlene P. Horton, M.D.	41	Vice President, Medical Affairs
Jane A. Moffitt	49	Vice President, Regulatory Affairs
Donald B. Rice, Ph.D	63	Chairman of the Board of Directors
Samuel H. Armacost	63	Director
Charles A. Sanders, M.D	70	Director
Solomon H. Snyder, M.D	63	Director
Burton E. Sobel, M.D	64	Director
Eugene L. Step	73	Director

Richard B. Brewer joined us in September 1998 as President, Chief Executive Officer and Director. From February 1996 to June 1998, he served as the Executive Vice President of Operations and then as Chief Operating Officer of Heartport, Inc., a medical device company. From 1984 to 1995, Mr. Brewer served in various capacities for Genentech Europe Ltd., Genentech Canada, Inc. and Genentech, Inc., most recently as Senior Vice President, U.S. Sales and Marketing. Mr. Brewer received a B.S. from Virginia Polytechnic Institute and an M.B.A. from Northwestern University.

George F. Schreiner, M.D., Ph.D., joined us in January 1997 as Vice President, Cardiorenal Research. He became our Chief Scientific Officer in August 2000, responsible for leading our research group. From 1992 until January 1997, Dr. Schreiner was with CV Therapeutics, Inc., a biopharmaceutical company, as Vice President, Medical Science and Preclinical Research. From 1980 to 1992, Dr. Schreiner served on the faculties of Harvard Medical School and Washington University School of Medicine. Dr. Schreiner received an A.B. in Psychology/Sociology from Harvard College, an M.D. from Harvard Medical School and a Ph.D. in Immunology from Harvard University.

David W. Gryska joined us in December 1998 as Vice President of Finance and Chief Financial Officer and became our Senior Vice President of Finance in November 2000. From 1993 to December 1998, Mr. Gryska was Vice President, Finance and Chief Financial Officer of Cardiac Pathways Corporation, a medical device company. Mr. Gryska was with Ernst & Young LLP from 1982 to 1993 and served as a partner from 1989 to 1993. Mr. Gryska received a B.A. in Accounting and a B.A. in Finance from Loyola University of Chicago and an M.B.A. from Golden Gate University.

Patricia A. Baldwin, Ph.D., joined us in 1986 as a Scientist in the Novel Drug Delivery Department. In 1990, she moved to the Pharmaceutical Research and Development Department and in 1995, Dr. Baldwin became our Director of Analytical Chemistry. In September 1999, she became our Senior Director of Analytical Methods and Quality Control and in March 2000, Dr. Baldwin was promoted to our Vice President, Quality and Product Development. Dr. Baldwin received a B.S. in Chemistry from Stanford University and a Ph.D. in Chemistry from the University of California, Berkeley.

Thomas L. Feldman joined us in 1995 as Vice President of Commercial Operations and in November 1999, became our Vice President, Sales and Marketing. From 1973 to 1995, Mr. Feldman held various sales and

Table of Contents

marketing positions at pharmaceutical companies affiliated with Johnson & Johnson, including National Sales Manager at Ortho Pharmaceutical Corporation from 1993 to 1994, and National Sales Manager at McNeil Pharmaceutical from 1990 to 1993. Mr. Feldman received a B.A. in Business and Speech from North Dakota State University.

M. Allison Herd joined us in March 2001 as Vice President of Human Resources. From February 2000 to March 2001, she was Director of Human Resources with Network ICE Corporation, a software company. From March 1998 to February 2000, Ms. Herd was Director of Human Resources with Cardiac Pathways Corporation, a medical device company. From November 1996 to March 1998, she was Human Resources Manager with Progressive Angioplasty Systems, a medical device company. From April 1996 to November 1996, Ms. Herd was Senior Human Resources Generalist with CLONTECH Laboratories, Inc., a biotechnology company. Ms. Herd holds a B.A. in Sociology from San Jose State University and an M.A. in Human Resources from Golden Gate University.

Matthew R. Hooper joined us in October 2000 as Senior Patent Counsel responsible for handling all intellectual property matters for us. In October 2001, Mr. Hooper became Vice President, General Counsel of Scios and currently oversees all legal aspects of our operations. From November 1999 to September 2000, Mr. Hooper was senior counsel in the litigation group of Jones Day Reavis and Pogue in Chicago. From 1994 to 1999, he held the position of counsel at Abbott Laboratories in its patent and trademark department. Before joining Abbott, Mr. Hooper served as a patent attorney at Amoco Corporation from 1985 through 1994, and an associate attorney in private practice in Chicago from 1982 through 1985. He received his J.D. from Northwestern University Law School and his B.S. degree in Chemistry from LaSalle University.

Darlene P. Horton, M.D., joined us in July 1996 and is responsible for directing and managing our clinical research programs. In August 2000, Dr. Horton was appointed our Vice President, Medical Affairs. Prior to joining Scios, she was a Pediatric Cardiology Fellow at UCSF s Cardiovascular Research Institute, and she remains on the clinical faculty at the University of California, San Francisco. Dr. Horton received a B.S. in Microbiology and an M.D. from the University of Florida in Gainesville.

Jane A. Moffitt joined Scios in August 2001 as Vice President of Regulatory Affairs and is responsible for overseeing all aspects of our regulatory operations. In her previous position with Cygnus, Inc., a medical device company, she served as Vice President, Regulatory Affairs and Quality Assurance from December 1999 to February 2001. Prior to Cygnus, from March 1998 to December 1999, Ms. Moffitt ran her own consulting business, advising numerous medical device and biotechnology companies on regulatory affairs and quality assurance. Before that, she served as Vice President, Worldwide Regulatory Affairs, at Collagen Corporation from January 1997 to March 1998, and as Vice President, Regulatory Affairs/Quality Assurance at Amsco International, Inc. from January 1993 to July 1996. She came to Amsco from Allergan, Inc., where she was Assistant General Counsel and Director of Regulatory Affairs. She received her B.S. degree from Dickinson College in Carlisle, Pa., and her J.D. from the Dickinson School of Law. She earned her LL.M. in Trade Regulation from the New York University School of Law through the Food & Drug Law Institute Fellowship Program.

Donald B. Rice, Ph.D., has served on our Board of Directors since 1997 and was elected our Chairman of the Board in November 1998. Since March 1997, Dr. Rice has served as the President, Chief Executive Officer and director of Agensys, Inc., a private biopharmaceutical company, where he currently serves as Chairman of the Board. Previously, he served Teledyne, Inc., as President, Chief Operating Officer and a director from 1993 to August 1996, the U.S. Department of Defense as Secretary of the Air Force from 1989 to 1993, and The RAND Corporation as President and Chief Executive Officer from 1972 to 1989. He was also Assistant Director of the Office of Management and Budget, The White House. Dr. Rice is a member of the board of directors of Wells Fargo & Company, Vulcan Materials Company, Unocal Corporation and Amgen, Inc.

Samuel H. Armacost has served on our Board of Directors since 1995. Since July 1998, Mr. Armacost has been Chairman of the Board of Directors of SRI International. From 1990 to 1998, he was a Managing Director

Table of Contents

of Weiss, Peck & Greer, LLC, an investment firm. He was a Managing Director of Merrill Lynch Capital Markets from 1987 to 1990, and was President, Chief Executive Officer and a director of BankAmerica Corporation from 1981 to 1986. Mr. Armacost is a member of the board of directors of Chevron Corporation and Exponent, Inc., a science and engineering consulting company. In addition, Mr. Armacost is on the board of directors of the James Irvine Foundation and the Advisory Board of the California Academy of Sciences, and he is a member of the International Advisory Group for Toshiba Corporation and The Business Council.

Charles A. Sanders, M.D., has served on our Board of Directors since 1997. He served as Chief Executive Officer of Glaxo Inc. from 1989 to 1994, and was Chairman of its board of directors from 1992 to 1995. He also served on the board of directors of Glaxo plc. Previously, he held a number of positions at Squibb Corporation, a multinational pharmaceutical corporation, including Vice Chairman, Chief Executive Officer of the Science and Technology Group and Chairman of the Science and Technology Committee of its board of directors. Dr. Sanders is a member of the board of directors of Genaera Corporation, a biopharmaceutical company, Vertex Pharmaceuticals Incorporated, Edgewater Technologies, an internet consulting company, Kendle International Inc., a contract research organization, Trimeris, Inc., a drug discovery company, Pharmacopeia Inc., a drug discovery company, Genentech, Inc., Cephalon, Inc., a pharmaceutical company, and Biopure Corporation, a pharmaceutical company.

Solomon H. Snyder, M.D., has served on our Board of Directors since 1992. Dr. Snyder is Director of the Department of Neuroscience and Distinguished Service Professor of Neuroscience, Pharmacology and Molecular Sciences and Psychiatry at The Johns Hopkins University, where he has been a faculty member since 1966. Dr. Snyder received the Albert Lasker Award for Basic Biomedical Research and Honorary Doctor of Science degrees from Northwestern University, Georgetown University, Ben Gurion University, Albany Medical College and the Technion University of Israel. Dr. Snyder received the Wolf Award in Medicine from the government of Israel for research relating to receptors. Dr. Snyder is a member of the National Academy of Sciences and a Fellow of the American Academy of Arts and Sciences, and of the American Philosophical Society. Dr. Snyder is also the author of numerous articles and several books. Dr. Snyder is a founder and a director of Guilford Pharmaceuticals Inc.

Burton E. Sobel, M.D., has served on our Board of Directors since 1996. Dr. Sobel is Physician-in- Chief, E.L. Amidon Professor and Chair of the Department of Medicine at The University of Vermont College of Medicine since 1994. From 1973 to 1994, Dr. Sobel was Professor of Medicine at Barnes Hospital, Washington University and Director of its Cardiovascular Division. Dr. Sobel has been a consultant to and served on scientific advisory boards of several pharmaceutical and biotechnology companies, served as a director of Squibb Corporation from 1986 to 1989 and is also a member of the Board of Directors of Fletcher Allen Healthcare. Dr. Sobel has been the recipient of numerous awards, including the American Heart Association s James B. Herrick Award and its Scientific Council s Distinguished Achievement Award, as well as the American College of Cardiology s Distinguished Scientist Award. Dr. Sobel has been the editor of *Circulation* and, since 1989, has served as editor of *Coronary Artery Disease*. His memberships and fellowships include the American College of Physicians, Royal Society of Medicine, American Heart Association, American College of Cardiology and Fellowship and Council membership in the American Association for the Advancement of Science.

Eugene L. Step has served on our Board of Directors since 1993. From 1956 until he retired in 1992, Mr. Step was employed by Eli Lilly and Company, most recently as Executive Vice President, President of the Pharmaceutical Division, where he was responsible for U.S. pharmaceutical operations and for the operations of Eli Lilly International. In addition, Mr. Step served on Eli Lilly s board of directors and Executive Committee. Mr. Step was Chairman of the Board of Directors of the Pharmaceutical Manufacturers Association and President of the International Federation of Pharmaceutical Manufacturers Associations. He is a member of the board of directors of Cell Genesys, Inc., a biopharmaceutical company, Guidant Corporation and Ceregen, Inc., a biopharmaceutical company.

Table of Contents

DESCRIPTION OF NOTES

We issued the notes under an indenture dated as of August 5, 2002 between Scios Inc. and Wells Fargo Bank, National Association, as trustee. The following summarizes some, but not all, of the provisions of the notes and the indenture. We urge you to read the indenture and the notes in their entirety because they, and not this description, define your rights as a holder of the notes. A copy of the form of indenture and the form of certificate evidencing the notes are exhibits to the registration statement of which this prospectus forms a part. As used in this section, the words we, us, our or Scios refer to Scios Inc. and its successors under the indenture and do not include any current or future subsidiary of Scios Inc.

General

The notes are unsecured (except to the extent described under Security) general obligations of Scios and are subordinate in right of payment as described under Subordination of the notes. However, payment from the money or the proceeds from the U.S. government securities pledged to Wells Fargo Bank, National Association, as collateral agent, as security for the notes and for the benefit of the trustee and the ratable benefit of the holders of the notes, as described under Security, is not subordinated to any senior indebtedness or subject to the subordination provisions described in this prospectus. The notes are convertible into common stock of Scios as described under Conversion of the notes. The notes are $150,000,000 aggregate principal amount. The notes may be issued only in denominations of $1,000 or in integral multiples of $1,000.

The notes bear interest at the annual rate of 5.50% from August 5, 2002, or from the most recent payment date to which interest has been paid or duly provided for. Interest is payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2003, to holders of record at the close of business on the preceding February 1 and August 1, respectively, except:

- that the interest payable upon redemption or repurchase, unless the date of redemption or repurchase is an interest payment date, will be payable to the person to whom principal is payable; and
- as set forth in the next succeeding paragraph.

In the case of any note, or portion of any note, that is converted into common stock of Scios during the period from, but excluding, a record date for any interest payment date to, but excluding, that interest payment date, either:

- if the note, or portion of the note, has been called for redemption on a redemption date that occurs during that period, or is to be repurchased on a repurchase date, as defined below, that occurs during that period, then Scios will not be required to pay interest on that interest payment date in respect of any note, or portion of any note, that is so redeemed or repurchased; or
- if otherwise, any note or portion of any note that is not called for redemption that is submitted for conversion during that period must be accompanied by funds equal to the interest payable on that interest payment date on the principal amount so converted.

See Conversion of the notes.

Interest will be paid, at Scios option, either:

- by check mailed to the address of the person entitled to the interest as it appears in the note register; provided that a holder of notes with an aggregate principal amount in excess of $2 million will, at the written election of the holder, be paid by wire transfer in immediately available funds; or
- by transfer to an account maintained by that person located in the United States.

Table of Contents

Payments to The Depository Trust Company, New York, New York, or DTC, will be made by wire transfer of immediately available funds to the account of DTC or its nominee. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

The notes will mature on August 15, 2009 unless earlier converted, redeemed or repurchased as described below. The indenture does not contain any financial covenants or restrictions on the payment of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by Scios or any of its subsidiaries. The indenture contains no covenants or other provisions to protect holders of the notes in the event of a highly leveraged transaction or a change in control of Scios except to the extent described below under Repurchase at option of holders.

Conversion of the notes

Any registered holder of notes may, at any time prior to close of business on the business day prior to the date of repurchase, redemption or final maturity of the notes, as appropriate, convert the principal amount of any notes or portions thereof, in denominations of $1,000 or integral multiples of $1,000, into common stock of Scios, at the initial conversion price of $39.30, subject to adjustment as described below.

Except as described below, no payment or adjustment will be made on conversion of any notes for interest accrued thereon or for dividends on any common stock issued upon conversion. If any notes are converted between a record date and the next interest payment date, those notes must be accompanied by funds from the holder equal to the interest payable on the next interest payment date on the principal amount so converted. The foregoing sentence does not apply in the case of such notes or portions of such notes called for redemption or subject to repurchase following a change in control during that period. Scios is not required to issue fractional shares of common stock upon conversion of the notes and, instead, will pay a cash adjustment based upon the market price of common stock on the last trading day prior to the date of conversion. In the case of notes called for redemption or tendered for repurchase, conversion rights will expire at the close of business on the business day preceding the day fixed for redemption or repurchase unless Scios defaults in the payment of the redemption or repurchase price. A note that the holder has elected to be repurchased may be converted only if the holder withdraws its election to have its notes repurchased in accordance with the terms of the indenture.

The initial conversion price set forth on the cover page of this prospectus is subject to adjustment upon the following:

(1) the issuance of common stock of Scios as a dividend or distribution on the common stock;

(2) the issuance to all holders of common stock of rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase common stock at a price per share or a conversion price per share less than the current market price per share, provided that the conversion price will be readjusted to the extent that such rights or warrants are not exercised prior to their expiration;

(3) subdivisions and combinations of the common stock;

(4) the distribution to all holders of common stock of capital stock, other than common stock, or evidences of indebtedness of Scios or of assets, including securities, but excluding those rights, warrants, dividends and distributions referred to in (1) and (2) above or paid in cash;

(5) a dividend or distribution consisting exclusively of cash to all holders of common stock if the aggregate amount of these distributions combined together with (A) all other all-cash distributions made within the preceding 12 months in respect of which no adjustment has been made plus (B) any cash and the fair market value of other consideration payable in any tender offers by Scios or any of its subsidiaries for common stock concluded within the preceding 12 months in respect of which no adjustment has been made, exceeds 10% of Scios market capitalization on the business day immediately preceding the day on which we declare such distribution; or

Table of Contents

(6) the purchase of common stock pursuant to a tender offer made by Scios or any of its subsidiaries to the extent that the same involves an aggregate consideration that, together with (A) any cash and the fair market value of any other consideration payable in any other tender offers by Scios or any of its subsidiaries for common stock expiring within the 12 months preceding such tender offer in respect of which no adjustment has been made plus (B) the aggregate amount of any such all-cash distributions referred to in

(5) above to all holders of common stock within the 12 months preceding the expiration of the tender offer for which no adjustment has been made, exceeds 10% of Scios market capitalization on the expiration date of such tender offer.

In the case of:

any reclassification or change of the common stock; or

a consolidation, merger or combination involving Scios; or

a sale or conveyance to another person of the property and assets of Scios as an entirety or substantially as an entirety;

in such case as a result of which holders of common stock would be entitled to receive stock, other securities, other property or assets, including cash, in respect of or in exchange for all shares of common stock, then the holders of the notes then outstanding will generally be entitled thereafter to convert the notes into the same type of consideration that they would have owned or been entitled to receive upon such event had the notes been converted into common stock immediately prior to that event, assuming that a holder of notes would not have exercised any rights of election as to the consideration receivable in connection with that transaction.

If Scios makes a taxable distribution to holders of common stock or in specified other circumstances requiring an adjustment to the conversion price, the holders of notes may, in some circumstances, be deemed to have received a distribution subject to U.S. income tax as a dividend. In some other circumstances, the absence of an adjustment to the conversion price may result in a taxable dividend to the holders of common stock. See Certain United States federal income tax consequences.

No adjustment in the conversion price will be required unless that adjustment would require an increase or decrease of at least 1% in the conversion price then in effect; however, any adjustment that would otherwise be required to be made will be carried forward and taken into account in any subsequent adjustment. Except as stated above, the conversion price will not be adjusted for the issuance of common stock or any securities convertible into or exchangeable for common stock or carrying the right to purchase any of the foregoing.

Scios may from time to time, to the extent permitted by law, reduce the conversion price by any amount for any period of at least 20 days, in which case Scios will give at least 15 days notice of the reduction. Scios may, at its option, make reductions in the conversion price, in addition to those described above, as Scios board of directors deems advisable to avoid or diminish any income tax to holders of common stock resulting from any dividend or distribution of stock, or rights to acquire stock, or from any event treated as dividends or distributions of, or rights to acquire, stock for income tax purposes.

Security

On August 5, 2002, we used approximately $24.0 million of existing funds to purchase U.S. government securities which were pledged to the collateral agent as security for the notes and for the benefit of the trustee and the ratable benefit of the holders of the notes (and not for the benefit of our other creditors). These securities, as held and invested by the collateral agent in accordance with the terms of the pledge agreement that we entered into with the trustee and the collateral agent, will be sufficient upon receipt of scheduled interest and principal payments of such securities to provide for payment in full of the first six scheduled interest payments on the notes when due.

Table of Contents

The U.S. government securities were pledged by us to the collateral agent for the benefit of the trustee and the ratable benefit of the holders of the notes and are being held by the collateral agent in a pledge account. Immediately prior to an interest payment date, the collateral agent will release from the pledge account proceeds sufficient to pay interest then due on the notes. We may also make additional payments to the collateral agent to ensure that sufficient funds are available to pay interest then due on the notes if necessary. A failure to pay interest on the notes when due through the first six scheduled interest payment dates will constitute an event of default (as defined below) under the indenture.

The pledged U.S. government securities and the pledge account also secure the repayment of the principal amount on the notes. If prior to the date on which the sixth scheduled interest payment on the notes is due:

- an event of default under the notes or the indenture governing the notes occurs and is continuing; and

- the trustee or the holders of 25% in aggregate principal amount of the notes accelerate the notes by declaring the principal amount of the notes to be immediately due and payable (by written consent, at a meeting of note holders or otherwise), except for the occurrence of an event of default relating to our bankruptcy, insolvency or reorganization or that of any of our significant subsidiaries, upon which the notes will be accelerated automatically, then the proceeds from the pledged U.S. government securities will be promptly released for payment to the note holders, subject to the automatic stay provisions of bankruptcy law, if applicable.

Distributions from the pledge account will be applied:

- first, to any accrued and unpaid interest on the notes; and

- second, to the extent available, to the repayment of a portion of the principal amount of the notes.

If any event of default is waived prior to the acceleration of the notes by the trustee or holders of the notes referred to above, the trustee and the holders of the notes will not be able to accelerate the notes as a result of that event of default.

For example, if the first two interest payments were made when due but the third interest payment was not made when due and the note holders promptly exercised their right to declare the principal amount of the notes to be immediately due and payable, then, assuming the automatic stay provisions of bankruptcy law are inapplicable and the proceeds of the pledged U.S. government securities are promptly distributed from the pledge account,

- an amount equal to the interest payment due on the third interest payment plus any additional interest accrued on the missed third interest payment would be distributed from the pledge account as accrued interest; and

- the balance of the proceeds of the pledge account would be distributed as a portion of the principal amount of the notes.

In addition, note holders would have an unsecured claim against us for the remainder of the principal amount of their notes.

Once we make the first six scheduled interest payments on the notes, all of the remaining pledged U.S. government securities and cash, if any, will be released to us from the pledge account and thereafter the notes will be unsecured.

Table of Contents

Optional redemption by Scios

The notes are not entitled to any sinking fund.

At any time on or after August 19, 2005, Scios may redeem the notes on at least 30 days and not more than 60 days notice as a whole or, from time to time, in part at the following prices, expressed as a percentage of the principal amount, together with accrued interest to, but excluding, the date fixed for redemption:

Period	Redemption Price
Beginning August 19, 2005 and ending on August 14, 2006	103.143%
Beginning August 15, 2006 and ending on August 14, 2007	102.357%
Beginning August 15, 2007 and ending on August 14, 2008	101.571%
Beginning August 15, 2008 and ending on August 14, 2009	100.786%

Any accrued interest becoming due on the date fixed for redemption will be payable to the holders of record on the relevant record date of the notes being redeemed.

If less than all of the outstanding notes are to be redeemed, the trustee will select the notes to be redeemed in principal amounts of $1,000 or integral multiples of $1,000 by lot, pro rata or by another method the trustee considers fair and appropriate. If a portion of a holder s notes is selected for partial redemption and that holder converts a portion of that holder s notes, the converted portion will be deemed to be of the portion selected for redemption.

Repurchase at option of holders

You will have the right, at your option, to require us to repurchase all or any portion of your notes on the date fixed by us not more than 60 days after the occurrence of a change in control (the repurchase date).

The repurchase price will be 100% of the principal amount of the notes submitted for repurchase, plus accrued and unpaid interest to, but excluding, the repurchase date. If a repurchase date is an interest payment date, then the interest payable on that date will be paid to the holder of record on the preceding record date.

At our option, instead of paying the repurchase price solely in cash, we may pay the repurchase price (to the extent not paid in cash) in shares of our common stock, valued at 95% of the average of the closing prices for the five trading days immediately preceding and including the third trading day preceding the repurchase date. The repurchase price may be paid in shares of our common stock only if the following conditions are satisfied:

- such shares have been registered under the Securities Act of 1933 or are freely transferable without such registration;
- the issuance of common stock does not require registration or qualification with or approval of any governmental authority under any state law or any other federal law, which registration or qualification or approval has not been made or obtained;
- such shares have been approved for quotation on the Nasdaq National Market or listing on a national securities exchange; and
- such shares will be issued out of our authorized but unissued common stock and upon issuance, will be duly and validly issued and fully paid and non-assessable and free of any preemptive rights.

A change in control will be considered to have occurred if one of the following events occurs:

- any person or group is or becomes the beneficial owner of more than 50% of the voting power of our outstanding securities entitled to generally vote for directors;

Table of Contents

we consolidate with or merge into any other person or any other person merges into Scios or we convey, transfer or lease all or substantially all of our assets to another person other than our subsidiaries and, as a result, our outstanding common stock is changed or exchanged for other assets or securities, unless our shareholders immediately before the transaction own, directly or indirectly, immediately following the transaction more than 50% of the combined voting power of the person resulting from the transaction or the transferee person; or

our liquidation or dissolution.

However, a change in control will not be deemed to have occurred if either:

the last sale price of our common stock for any five trading days within

the period of ten consecutive trading days immediately after the later of the change in control or the public announcement of the change in control, in the case of a change in control resulting solely from a change in control under the first and second bullet points above; or

the period of ten consecutive trading days immediately preceding the change in control, in the case of a change in control under the third bullet point above;

is at least equal to 105% of the conversion price in effect on such date; or

in the case of a merger or consolidation, all of the consideration excluding cash payments for fractional shares in the merger or consolidation constituting the change in control consists of common stock traded on a United States national securities exchange or quoted on the Nasdaq National Market (or which will be so traded or quoted when issued or exchanged in connection with such change in control) and as a result of such transaction or transactions the notes become convertible solely into such common stock.

We will be required to mail you a notice within 30 days after the occurrence of a change in control. The notice must describe, among other things, the change in control, your right to elect repurchase of the notes and the repurchase date. We must deliver a copy of the notice to the trustee. You may exercise your repurchase rights by delivering written notice to us and the trustee. The notice must be accompanied by the notes duly endorsed for transfer to Scios. You must deliver the exercise notice on or before the close of business on the third business day prior to the repurchase date.

We may arrange for a third party to make an offer to repurchase the notes upon a change in control in the manner and otherwise in compliance with the requirements set forth in the indenture applicable to the offer to repurchase the notes validly tendered and not withdrawn under the terms of the offer to repurchase the notes.

The interpretation of the phrase all or substantially all used in the definition of change in control would likely depend on the facts and circumstances existing at such time. As a result, there may be uncertainty as to whether or not a sale or transfer of all or substantially all assets has occurred. As a result, we cannot assure you how a court would interpret this phrase under applicable law if you elect to exercise your rights following the occurrence of a transaction which you believe constitutes a transfer of all or substantially all of our assets.

We may not have sufficient funds to repurchase the notes upon a change in control in cash. Future debt agreements may prohibit us from paying the repurchase price in cash. If we are prohibited from repurchasing the notes with cash, we could seek consent from our lenders to repurchase the notes. If we are unable to obtain their consent, we could attempt to refinance the notes or (if permitted) purchase the notes with common stock as set forth herein. If we were unable to obtain a consent or refinance or cannot or do not repurchase the notes with shares of our common stock and were unable to repurchase the notes upon a change in control, it would result in an event of default under the indenture. An event of default under the indenture could result in a further event of default under our other then-existing debt. In addition, the occurrence of a change in control may be an event of default under our other then-existing debt. As a result, we could be prohibited from paying amounts due on the notes under the subordination provisions of the indenture.

Table of Contents

The change in control feature may not necessarily afford you protection in the event of a highly leveraged transaction, a change in control or similar transactions involving Scios. We could, in the future, enter into transactions, including recapitalizations, that would not constitute a change in control but that would increase the amount of our senior indebtedness or other indebtedness.

We are not prohibited from incurring senior indebtedness or other indebtedness by the indenture. If we incur significant amounts of additional debt, this could have an adverse effect on our ability to make payments on the notes. In addition, our management could undertake leveraged transactions that could constitute a change in control. The board of directors does not have the right under the indenture to limit or waive the repurchase right in the event of these types of leveraged transactions.

The requirement to repurchase notes upon a change in control could delay, defer or prevent a change of control. As a result, the repurchase right may discourage:

a merger, consolidation or tender offer;

the assumption of control by a holder of a large block of our shares; and

the removal of incumbent management.

The repurchase feature was a result of negotiations between Scios and the initial purchasers. The repurchase feature is not the result of any specific effort to accumulate shares of common stock or to obtain control of Scios by means of a merger, tender offer or solicitation, or part of a plan by Scios to adopt a series of anti-takeover provisions. We have no present intention to engage in a transaction involving a change of control, although it is possible that we may decide to do so in the future.

The Securities Exchange Act of 1934, as amended, and the rules thereunder require the distribution of specific types of information to security holders in the event of issuer tender offers. These rules may apply in the event of a repurchase. We will comply with these rules to the extent applicable.

Subordination of the notes

The indebtedness evidenced by the notes (other than with respect to payments on the notes derived from U.S. government securities pledged by us to the collateral agent for the benefit of the trustee and the ratable benefit of the holders of the notes (hereafter referred to as permitted payments)) is subordinated to the extent provided in the indenture to the prior payment in full, in cash or other payment satisfactory to holders of senior indebtedness, of all of our existing and future senior indebtedness. Upon any distribution of our assets upon any dissolution, winding-up, liquidation or reorganization, or in bankruptcy, insolvency, receivership or similar proceedings, payment of the principal of, premium, if any, interest and all other obligations in respect of the notes, including by way of redemption, acquisition or other purchase thereof, on the notes, except for permitted payments and payments we may choose to make comprised solely in permitted junior securities acceptable to the holders, is subordinated in right of payment to the prior payment in full, in cash or other payment satisfactory to holders of senior indebtedness, of all of our existing and future senior indebtedness. In addition, the notes are effectively subordinated to any indebtedness and other liabilities, including trade payables and lease obligations and preferred stock, of our subsidiaries.

In the event of any acceleration of the notes because of an event of default, the holders of any senior indebtedness then outstanding would be entitled to payment in full, in cash or other payment satisfactory to holders of senior indebtedness, of all obligations in respect to such senior indebtedness before the holders of notes are entitled to receive any payment or other distribution, except for permitted payments and payments we choose to make comprised solely in permitted securities acceptable to the holders. We will be required to promptly notify holders of senior indebtedness if payment of the notes is accelerated because of an event of default.

Table of Contents

We also may not make any payment upon or redemption of or purchase or otherwise acquire the notes, except for permitted payments and payments we may choose to make comprised solely in permitted junior securities acceptable to the holders, if:

- a default in the payment of principal, premium, if any, interest or other obligations in respect of designated senior indebtedness occurs and is continuing beyond any applicable period of grace (a payment default); or
- any other default occurs and is continuing with respect to designated senior indebtedness that permits holders of the designated senior indebtedness to which such default relates to accelerate its maturity and the trustee receives a notice of such default, which we refer to as a payment blockage notice, from us or any other person permitted to give this notice under the indenture.

Unless the holders of any senior indebtedness have accelerated its maturity, we may and shall resume making such payments on the notes:

- in the case of a payment default, when the default is cured or waived or ceases to exist; and
- in the case of a nonpayment default, the earlier of when such nonpayment default is cured or waived or ceases to exist or 179 days after receipt of the payment blockage notice.

No new period of payment blockage may be commenced pursuant to a payment blockage notice unless and until 360 days have elapsed since the initial effectiveness of the prior payment blockage notice.

No default that existed or was continuing on the date of delivery of any payment blockage notice to the trustee shall be the basis for a subsequent payment blockage notice, unless the default has been cured or waived for a period of not less than 90 consecutive days.

In the event of our bankruptcy, dissolution or reorganization, holders of senior indebtedness may receive more, ratably, and holders of the notes may receive less, ratably, than our other creditors. Such subordination will not prevent the occurrence of any event of default under the indenture.

The notes are exclusively our obligations. While we currently have no subsidiaries with significant operations, all or a portion of our operations in the future may be conducted through subsidiaries. Any subsidiaries of ours would be separate and distinct legal entities. None of our subsidiaries would have any obligation to pay any amounts due on the notes or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries earnings and business consideration. There can be no assurance that we will receive adequate funds from our subsidiaries to pay interest due on the notes or to repay the notes when redeemed or upon maturity. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

As of June 30, 2002, we had approximately $56.7 million of indebtedness that would have constituted senior indebtedness.

Neither we nor our subsidiaries are limited in or prohibited from incurring senior indebtedness or any other indebtedness or liabilities under the indenture.

Table of Contents

Certain definitions

designated senior indebtedness means any particular senior indebtedness in which the instrument creating or evidencing the senior indebtedness or the assumption of guarantee thereof (or related documents or agreements to which we are a party) expressly provides that such indebtedness shall be designated senior indebtedness (provided that such instrument may place limitations and conditions on the right of such senior indebtedness to exercise the rights of designated senior indebtedness).

indebtedness means:

(1) all of our indebtedness, obligations and other liabilities, contingent or otherwise, for borrowed money, including obligations:

in respect of overdrafts, foreign exchange contracts, currency exchange agreements, interest rate protection agreements and any loans or advances from banks, whether or not evidenced by notes or similar instruments; or

evidenced by bonds, debentures, notes or similar instruments, whether or not the recourse of the lender is to all of our assets or to only a portion thereof, other than any account payable or other accrued current liability or obligation incurred in the ordinary course of business in connection with the obtaining of materials or services;

(2) all of our reimbursement obligations and other liabilities, contingent or otherwise, with respect to letters of credit, bank guarantees or bankers acceptances;

(3) all of our obligations and liabilities, contingent or otherwise, in respect of leases required, in conformity with generally accepted accounting principles, to be accounted for as capitalized lease obligations on our balance sheet or under other leases for facilities equipment or related assets, whether or not capitalized, entered into or leased for financing purposes, as determined by us;

(4) all of our obligations and other liabilities, contingent or otherwise, under any lease or related document, including a purchase agreement, in connection with the lease of real property or improvements thereon (or any personal property included as part of any such lease) which provides that we are contractually obligated to purchase or cause a third party to purchase the leased property and thereby guarantee a residual value of leased property to the lessor and all of our obligations under such lease or related documents to purchase the leased property (whether or not such lease transaction is characterized as an operating lease or a capitalized lease in accordance with generally accepted accounting principles);

(5) all of our obligations, contingent or otherwise, with respect to an interest rate, currency or other swap, cap, floor or collar agreement, hedge agreement, forward contract, or other similar instrument or agreement or foreign currency hedge, exchange, purchase or similar instrument or agreement;

(6) all of our direct or indirect guarantees or similar agreements to purchase or otherwise acquire or otherwise assure a creditor against loss in respect of indebtedness, obligations or liabilities of another person of the kind described in clauses (1) through (5) above;

(7) any indebtedness or other obligations described in clauses (1) through (6) above secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by us, regardless of whether the indebtedness or other obligation secured thereby has been assumed by us; and

(8) any and all deferrals, renewals, extensions and refundings of, or amendments, modifications or supplements to, any indebtedness, obligation or liability of the kind described in clauses (1) through (7) above.

permitted junior securities means (a) shares of stock of any class of Scios or (b) securities of Scios that are subordinated in right in payment to all senior indebtedness that may be outstanding at the time of issuance or delivery of such securities to substantially the same extent as, or greater extent than, the notes are so subordinated pursuant to the terms of the indenture.

Table of Contents

senior indebtedness means all obligations with respect to indebtedness of Scios whether outstanding on the date of the indenture or thereafter created, incurred, assumed, guaranteed, or in effect guaranteed, by Scios, including, without limitation, all deferrals, renewals, extensions or refundings of, or amendments, modifications or supplements to, the foregoing, unless in the case of any particular indebtedness the instrument creating or evidencing the same or the assumption or guarantee thereof expressly provides that such indebtedness shall not be senior in right of payment to the notes or expressly provides that such indebtedness ranks equally in right of payment or junior to the notes. Senior indebtedness does not include the indebtedness evidenced by the notes, any indebtedness of Scios to any subsidiary of Scios, any obligation for federal, state or local or other taxes or any trade or accounts payable arising in the ordinary course of business.

We are obligated to pay compensation to the trustee and to indemnify the trustee against certain losses, liabilities or expenses incurred by it in connection with its duties relating to the notes. The trustee s claims for such payments will generally be senior to those of the holders of the notes in respect to all funds collected and held by the trustee.

Defeasance

The notes will not be subject to defeasance.

Exchange and transfer

Notes may be transferred or exchanged at the office of the security registrar in accordance with the indenture. We will not impose a service charge for any transfer or exchange, but we may require holders to pay any tax or other governmental charges associated with any transfer or exchange. In the event of any potential redemption of the notes, we will not be required to:

- issue, authenticate or register the transfer of or exchange any note during a period beginning at the opening of business 10 business days before the mailing of a notice of redemption and ending at the close of business on the day of the mailing; or
- register the transfer of or exchange any note selected for redemption, in whole or in part, except the unredeemed portion of notes being redeemed in part.

We have initially appointed the trustee as the security registrar, paying agent and conversion agent. We may designate additional registrars, paying or conversion agents or change registrars, paying or conversion agents. However, we will be required to maintain a paying agent in the place of payment for the notes.

Consolidation, merger and sale of assets

We may not consolidate with or merge into any other person, in a transaction in which we are not the surviving corporation, or convey, transfer or lease our properties and assets substantially as an entirety to, any person, unless:

- the successor, if any, is a corporation organized under the laws of the United States or any state thereof or the District of Columbia;
- the successor assumes our obligations under the notes and the indenture;
- immediately after giving effect to the transaction, no default or event of default shall have occurred and be continuing; and
- certain other conditions are met as set forth in the indenture.

The foregoing shall not prohibit any of our subsidiaries from merging with or into Scios or a merger effected solely for the purposes of reincorporating Scios in another jurisdiction.

Table of Contents

Under any consolidation, merger or any conveyance, transfer or lease of our properties and assets described in the preceding paragraph, the successor company will be our successor and shall succeed to, and be substituted for, and may exercise every right and power of, Scios under the indenture. Except in the case of a lease, if the predecessor is still in existence after the transaction, it will be released from its obligations and covenants under the indenture and the notes.

Events of default

The indenture defines an event of default with respect to the notes as one or more of the following events:

(1) our failure to pay principal of or any premium on the notes when due (whether or not prohibited by the subordination provisions of the indenture);

(2) our failure to pay any interest on the notes when due, if such failure continues for 30 days (whether or not prohibited by the subordination provisions of the indenture); provided that a failure to make any of the first six scheduled interest payments on the notes within three business days after the applicable interest payment dates will constitute an event of default with no additional grace or cure period;

(3) our failure to perform any other covenant in the indenture, if such failure continues for 60 days after the notice required in the indenture;

(4) any indebtedness for money borrowed by us or one of our significant subsidiaries in an outstanding principal amount in excess of $20 million is not paid at final maturity or upon acceleration and such indebtedness is not discharged, or such default on payment or acceleration is not cured, waived or rescinded within 30 days after written notice as provided in the indenture;

(5) certain events in our bankruptcy, insolvency or reorganization or that of any of our significant subsidiaries; and

(6) the pledge agreement, as such agreement may be amended, restated, supplemented or otherwise modified from time to time, shall cease to be in full force and effect or enforceable in accordance with its terms.

If an event of default, other than an event of default described in clause (5) above, occurs and continues, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding notes may declare the principal amount including any accrued and unpaid interest on the notes to be due and payable. If an event of default described in clause (5) above occurs, the principal amount of all the notes will automatically become immediately due and payable. Any payment by us on the notes following any acceleration will be subject to the subordination provisions described above under Subordination of the notes.

After acceleration but before a judgment or decree of the money due in respect of the notes has been obtained, the holders of a majority in aggregate principal amount of the outstanding notes may rescind such acceleration and its consequences if all events of default, other than the nonpayment of accelerated principal, or other specified amount, have been cured or waived.

Other than the duty to act with the required care during an event of default, the trustee will not be obligated to exercise any of its rights or powers at the request of the holders unless the holders offer the trustee reasonable indemnity. Generally, the holders of a majority in aggregate principal amount of the notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

A holder will have the right to begin a proceeding under the indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the indenture only if:

(1) the holder gives to the trustee written notice of a continuing event of default;

Table of Contents

(2) holders of at least 25% in aggregate principal amount of notes then outstanding made a written request to the trustee to pursue the remedy;

(3) such holder or holders offer to the trustee indemnity reasonably satisfactory to the trustee against any loss, liability or expense;

(4) the trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period the holders of a majority in aggregate principal amount of the notes then outstanding do not give the trustee a direction inconsistent with the request.

Holders may, however, sue to enforce the payment of principal, premium or interest on or after the due date or their right to convert without following the procedures listed in (1) through (5) above.

We will furnish the trustee an annual statement by our officers as to whether or not, to the officer s knowledge, we are in default in the performance of the indenture and, if so, specifying all known defaults.

Modification and waiver

We may make modifications and amendments to the indenture with the consent of the holders of a majority in aggregate principal amount of the outstanding notes affected by the modification or amendment. However, we may not make any modification or amendment without the consent of the holder of each outstanding note affected by the modification or amendment if such modification or amendment would:

change the stated maturity or the maturity date of the notes;

reduce the principal, premium, if any, or interest on the notes;

change the place of payment from New York, New York or the currency in which the notes are payable;

impair the right to sue for any payment after the stated maturity, the maturity date or redemption date;

modify the subordination provisions in an adverse manner to the holders;

adversely affect the right to convert the notes other than as provided in or under the indenture;

change the provisions in the indenture that relate to modifying or amending the indenture; or

reduce the percentage in principal amount of the outstanding notes necessary for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults.

Without the consent of the holders of the notes, we and the trustee may enter into one or more supplemental indentures for any of the following purposes:

to cure any ambiguity, omission, defect or inconsistency;

to provide for uncertificated notes in addition to or in place of certificated notes;

to provide for the assumption of our obligations to holders of the notes in the case of a merger or consolidation or sale of all or substantially all of our assets;

to reduce the conversion price;

to make any change that would provide any additional rights or benefits to the holder of the notes or that does not adversely affect the legal rights under the indenture of any such holder; or

to comply with the requirements of the SEC in order to maintain the qualification of the indenture under the Trust Indenture Act or 1939, as amended.

Table of Contents

Holders of a majority in aggregate principal amount of the outstanding notes may waive, on behalf of the holders of all of the notes, compliance by us with respect to certain restrictive provisions of the indenture.

Generally, the holders of not less than a majority of the aggregate principal amount of the outstanding notes may, on behalf of all holders of the notes, waive any past default or event of default unless:

- we fail to pay principal, premium or interest on any note when due;
- we fail to convert any note into common stock; or
- we fail to comply with any of the provisions of the indenture that would require the consent of the holder of each outstanding note affected.

An amendment may not effect any change that adversely affects the rights of any holder of senior indebtedness then outstanding under the subordination provisions unless such holder of senior indebtedness, or a representative for such holder, consents to such change.

Any notes held by us or by any persons directly or indirectly controlling or controlled by or under direct or indirect common control with us shall be disregarded (from both the numerator and denominator) for purposes of determining whether the holders of a majority in principal amount of the outstanding notes have consented to a modification, amendment or waiver of the terms of the indenture.

Notices

Notices to holders will be given by mail to the addresses of the holders in the security register.

Governing law

The indenture and the notes are governed by, and construed under, the law of the State of New York, without regard to conflicts of laws principles.

Regarding the trustee

Wells Fargo Bank, National Association has agreed to serve as the trustee under the indenture. The trustee will be permitted to deal with us and any affiliate of ours with the same rights as if it were not trustee. However, under the Trust Indenture Act of 1939, as amended, if the trustee acquires any conflicting interest and there exists a default with respect to the notes, the trustee must eliminate such conflicts or resign.

The holders of a majority in principal amount of all outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy or power available to the trustee. However, any such direction may not conflict with any law or the indenture, may not be unduly prejudicial to the rights of another holder or the trustee and may not involve the trustee in personal liability.

Book-entry system

We initially issued the notes in the form of a global security. Upon the issuance of a global security, DTC (referred to as the depository) or its nominee credited the accounts of persons holding through it with the respective principal amounts of the notes represented by such global security. Such accounts are designated by the initial purchasers with respect to notes placed by the initial purchasers for us. Ownership of beneficial interests in a global security is limited to persons that have accounts with the depository (participants) or persons that hold interests through participants. Ownership of beneficial interests by participants in a global security is shown on, and the transfer of that ownership interest will be effected only through, records maintained by the depository for such global security. Ownership of beneficial interests in such global security held through participants is shown on, and the transfer of that ownership interests through such participant will be effected only through, records maintained by such participant. The foregoing may impair the ability to transfer beneficial interests in a global security.

Table of Contents

We will make payment of principal, premium, if any, and interest on notes represented by any such global security to the paying agent for the benefit of the depository or its nominee, as the case may be, as the sole holder of the notes represented thereby for all purposes under the indenture. None of Scios, the trustee, any agent of Scios, or the trustee or the initial purchasers have any responsibility or liability for any aspect of the depository s records relating to or payments made on account of beneficial ownership interests in the global security representing any notes or for maintaining, supervising or reviewing any of the depository s records relating to such beneficial ownership interests. We have been advised by the depository that, upon receipt of any payment of principal, premium, if any, or interest on any global security, the depository will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global security as shown on the records of the depository. Payments by participants to owners of beneficial interests in a global security held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for customer accounts registered in street name, and will be the sole responsibility of such participants.

A global security may not be transferred except as a whole by the depository for such global security to a nominee of such depository or by a nominee of such depository to such depository or another nominee of such depository or by such depository or any such nominee to a successor of such depository or a nominee of such successor. If (i) the depository notifies us that it is at any time unwilling or unable to continue as depository and a successor depository is not appointed by us or the depository within 90 days, or (ii) an event of default has occurred and is continuing and the registrar has received a written request from the depository to issue physical securities, we will issue notes in definitive form in exchange for the global security. In either instance, an owner of a beneficial interest in the global security will be entitled to have notes equal in principal amount to such beneficial interest registered in its name and will be entitled to physical delivery of such notes in definitive form. Notes so issued in definitive form will be issued in denominations of $1,000 and integral multiples thereof and will be issued in registered form only, without coupons. We will pay principal, premium, if any, and interest on the notes and the notes may be presented for registration of transfer or exchange, at the offices of the trustee.

So long as the depository for a global security, or its nominee, is the registered owner of such global security, such depository or such nominee, as the case may be, will be considered the sole holder of the notes represented by such global security for the purposes of receiving payment on the notes, receiving notices and for all other purposes under the indenture and the notes. Beneficial interests in notes will be evidenced only by, and transfers thereof will be effected only through, records maintained by the depository and its participants. The depository has nominated Cede & Co. as its nominee. Except as provided above, owners of beneficial interests in a global security will not be entitled to have the notes represented by the global security registered in their name, will not be entitled to receive physical delivery of certificated notes and will not be considered the holders thereof for any purposes under the indenture. Accordingly any such person owning a beneficial interest in such a global security must rely on the procedures of the depository, and, if any such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture. The indenture provides that the depository may grant proxies and otherwise authorize participants to give or take any request, demand, authorization, direction, notice, consent, waiver or other action which a holder is entitled to give or take under the indenture. We understand that under existing industry practices, in the event that a holder of the notes requests any action or that an owner of a beneficial interest in such a global security desires to give or take any action which a holder is entitled to give or take under the indenture, the depository would authorize the participants holding the relevant beneficial interest to give or take such action and such participants would authorize beneficial owners owning through such participants to give or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

The depository has advised us that the depository is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered under the Exchange Act. The depository was created to hold the securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry

Table of Contents

changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The depository s participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own the depository. Access to the depository s book-entry system is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Table of Contents

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 150,000,000 shares of common stock, $.001 par value, and 20,000,000 shares of preferred stock, $.001 par value, of which 21,053 shares are designated Series A preferred stock, $.001 par value, and 50,000 shares are designated Series B preferred stock, $.001 par value.

Common stock

As of June 30, 2002, there were 46,614,473 shares of common stock outstanding. Subject to preferences that may be applicable to any outstanding preferred stock, holders of common stock are entitled to receive ratably any dividends that may be declared by the board of directors out of funds legally available therefor. Each holder of common stock is entitled to one vote for each share held of record in the election of directors and on all other matters submitted to the vote of stockholders. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding preferred stock. Holders of common stock have no preemptive rights and have no rights to convert their common stock into any other securities and there are no redemption provisions with respect to such shares. The transfer agent and registrar for our common stock is Equiserve Investor Relations.

Preferred stock

We may issue preferred stock from time to time in one or more series. Our board of directors has the authority to fix the designation, powers, preferences, rights, qualifications, limitations and restrictions of any series of undesignated preferred stock and to increase or decrease the number of shares of a series, but not below the number of shares of any series then outstanding, without any further vote or action by our stockholders.

As of June 30, 2002, there were no shares of Series A preferred stock outstanding and 4,991 shares of Series B preferred stock outstanding. In 2000, we paid down the Genentech loan by $7.6 million which consisted of a cash payment of $2.6 million and 4,991 shares of Series B preferred stock. Each share of Series B preferred stock is convertible at the option of the holder thereof into 100 shares of common stock and will not have voting rights (except as required under the Delaware General Corporation Law) until converted into shares of our common stock. In addition, the holders of the Series B preferred stock are entitled to receive dividends payable on each share of common stock into which such shares could then be converted, when and if declared by our Board of Directors. In the event of any liquidation, dissolution or winding up of Scios, after payment of debts and other liabilities, the holders of the Series B preferred stock (on an as converted basis) and the holders of the common stock will share ratably in the remaining assets of Scios.

Warrants

As of June 30, 2002, we had outstanding warrants to purchase an aggregate of 700,000 shares of our common stock. All of these warrants are held by PharmaBio and have an exercise price of $20.00 per share. The warrants are exercisable in seven installments during the period of December 2001 through May 2003. These warrants are exercisable be