

RIBAPHARM INC
Form 424B4
April 12, 2002

Filed pursuant to Rule 424(b)(4)
Registration Statement No. 333-39350

PROSPECTUS

26,000,000 Shares

[RIBAPHARM LOGO]
Common Stock

This is an initial public offering of shares of our common stock. ICN Pharmaceuticals, Inc. is selling all of these shares of our common stock and will receive all of the proceeds of this offering.

UPON COMPLETION OF THIS OFFERING, ICN WILL OWN APPROXIMATELY 82.67% OF OUR OUTSTANDING SHARES OF COMMON STOCK, ASSUMING NO EXERCISE OF THE OVER-ALLOTMENT OPTION REFERRED TO BELOW. IF THE OVER-ALLOTMENT OPTION REFERRED TO BELOW IS EXERCISED, ICN WILL OWN APPROXIMATELY 80.07% OF OUR OUTSTANDING SHARES OF COMMON STOCK.

Our common stock is approved for listing on the New York Stock Exchange under the symbol "RNA," subject to official notice of issuance.

BEFORE BUYING ANY SHARES YOU SHOULD READ THE DISCUSSION OF MATERIAL RISKS OF INVESTING IN OUR COMMON STOCK IN "RISK FACTORS" BEGINNING ON PAGE 11.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER SHARE	TOTAL
Public offering price	\$10.00	\$260,000,000
Underwriting discounts and commissions	\$ 0.70	\$ 18,200,000
Proceeds, before expenses, to ICN	\$ 9.30	\$241,800,000

The underwriters may also purchase up to an additional 3,900,000 shares of our common stock from ICN at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus. The underwriters may exercise this option only to cover over-allotments, if any. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be \$20,930,000 and the total proceeds to ICN, before expenses, will be \$278,070,000.

The underwriters are offering the common stock as set forth under

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"Underwriting." Delivery of the shares will be made on or about April 17, 2002.
UBS WARBURG

CIBC WORLD MARKETS

SG COWEN

The date of this prospectus is April 12, 2002.

Until May 8, 2002 (25 days after the date of this prospectus), all dealers selling shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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Prospectus summary

This summary highlights information contained elsewhere in this prospectus. We urge you to read this entire prospectus carefully, including the "Risk factors" section, before making an investment decision. We derived the financial and other information contained in this prospectus from our historical performance as a division within the ICN Pharmaceuticals, Inc. consolidated group.

OUR BUSINESS

We are a biotechnology company that seeks to discover, develop, acquire and commercialize innovative products for the treatment of significant unmet medical needs, principally in the antiviral and anticancer areas. Prior to this offering, we were operated as a division of ICN Pharmaceuticals, Inc.

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Our product ribavirin is an antiviral drug that Schering-Plough Ltd. markets under license from us as a therapy for the treatment of hepatitis C in the United States, the European Union and Japan. Ribavirin is marketed in combination with Schering-Plough's interferon alfa-2b and Schering-Plough's pegylated interferon alfa-2b. Our royalties from sales of ribavirin by Schering-Plough were \$110 million for 1999, \$155 million for 2000 and \$139 million for 2001. The royalty payment for sales of ribavirin in the first quarter of 2002 is payable in late May 2002. ICN will retain this royalty payment. The royalty payment for sales of ribavirin in the second quarter of 2002 is payable in late August 2002. This royalty payment will be divided between us and ICN on a pro-rata basis based on the closing date of this offering. We will retain all subsequent royalty payments.

We have two next generation compounds, which are similar to ribavirin, as product candidates. These product candidates are Levovirin and Viramidine. We filed an investigational new drug application with the US Food and Drug Administration, or FDA, for Levovirin in December 2000. In February 2001, we began Phase I clinical trials on Levovirin in the United States. In June 2001, we licensed Levovirin to F. Hoffmann-La Roche. In September 2001, we initiated Phase I clinical trials on Viramidine in Europe. We filed an investigational new drug application with the FDA in December 2001 for Viramidine. In late March 2002, we began additional Phase I clinical trials on Viramidine in the United States.

To further expand our antiviral pipeline, we and ICN licensed two other compounds from third parties. These compounds are Hepavir B and IL-12. ICN licensed Hepavir B from Metabasis Therapeutics, Inc. in October 2001. Hepavir B is a compound we intend to develop for the treatment of hepatitis B. ICN contributed the Hepavir B license to us. We and ICN licensed IL-12 from F. Hoffmann-La Roche in June 2001. IL-12 is a developmental compound for the treatment of cancer and allergies. We have not taken any steps at this time to develop IL-12. ICN contributed all of its rights under the IL-12 license to us.

Ribavirin, Levovirin and Viramidine came from our extensive library of nucleoside analog chemical compounds. ICN initially began discovering the compounds from 1968 through 1976. ICN developed additional compounds from 1985 through 1988. Since March 2000, we discovered additional compounds using chemical methods known as combinatorial chemistry. In total, we presently have over 6,500 nucleoside analog compounds in our library. Nucleoside analogs are small-molecule-type chemicals that resemble the natural building blocks of human and viral genetic material. This genetic material is commonly known as DNA and RNA. We believe that our library contains one of the largest collections of nucleoside analogs in the world. We intend to combine our scientific expertise with advanced drug screening techniques in an effort to discover and develop new product candidates using our nucleoside analog library. During 2001, we acquired more than 70,000 diverse non-nucleoside analog compounds from third parties to complement our nucleoside analog library. These non-nucleoside compounds also target antiviral and anticancer areas. We intend to use these

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non-nucleoside compounds to facilitate our development of new products. To date, ribavirin is the only compound we have commercialized from our library.

RELATIONSHIP WITH ICN

ICN has advised us that it is initiating the public offering at this time as part of a larger corporate restructuring plan intended to enhance the success and efficiency of each of its three core businesses. See "Relationship with ICN."

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In February 2000, ICN retained UBS Warburg LLC to advise it regarding possible strategic alternatives. On June 15, 2000, ICN publicly announced a restructuring plan to split into three separate companies. ICN has advised us that, as part of its restructuring, it is committed to distributing its remaining interest in us to ICN's stockholders in a tax-free spin-off no later than six months after completion of this offering. ICN developed its corporate restructuring plan after consulting with UBS Warburg LLC.

ICN has advised us that it believes the restructuring and spin-off will result in the following benefits:

- GREATER STRATEGIC FOCUS AND REDUCED INEFFICIENCIES. As a result of each of its three core businesses having its own board of directors and separate management team, ICN expects the businesses will be better able to focus on corporate and strategic opportunities. These opportunities include acquisitions and investments that are critical to the growth and success of each of the businesses. In addition, ICN expects that the restructuring and spin-off will eliminate the difficulties and inefficiencies inherent in managing three separate businesses.
- INCREASED OFFERING PROCEEDS. ICN believes that its proceeds from the public offering are likely to be greater since ICN is committed to distributing its interest in us to ICN stockholders on a tax-free basis as soon as possible after this offering. ICN believes that investors should place a higher valuation on us if they believe that we will be operated independently from ICN, rather than as a consolidated subsidiary, and that investors will be more interested in purchasing shares of our common stock if there will be more liquidity in the near future.
- EQUITY CURRENCY MORE DIRECTLY LINKED TO EACH BUSINESS. As a result of the restructuring and spin-off, each of ICN's core businesses will have its own equity currency. ICN expects that this will result in better incentives for, and greater accountability of, employees by allowing incentive compensation to be more closely linked with market performance of the stock of each of the businesses. In addition, ICN believes that equity currency more closely linked to each business may be more attractive consideration for future acquisitions.
- BROADER EQUITY RESEARCH COVERAGE. ICN believes that the restructuring and spin-off are likely to facilitate broader equity research coverage of both ICN and us, thereby expanding the range of prospective equity investors in both ICN and us.

ICN has advised us that its commitment to distribute its remaining interest in us to ICN's stockholders on a tax-free basis is subject to:

- obtaining a ruling from the Internal Revenue Service that the distribution will qualify as a tax-free spin-off under US tax laws or a favorable opinion from ICN's counsel regarding the federal income tax consequences of the distribution; and
- compliance with all other applicable laws, including SEC regulations, Delaware General Corporation Law provisions regarding the payment of dividends and compliance with applicable fraudulent conveyance laws.

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In addition, while ICN has been advised by counsel that stockholder approval is not legally required, it may also seek the approval of the spin-off by its

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stockholders. We are not aware at this time of any circumstances under which ICN will not effect the spin-off if all of these conditions are satisfied.

ICN has advised us that it filed in March 2002 a request with the Internal Revenue Service for a ruling that the distribution will qualify as a tax-free spin-off under US tax laws. Typically, it takes four to six months from the date of submission of a ruling request for the Internal Revenue Service to make a determination. We cannot assure you that it will not take longer for the Internal Revenue Service to rule on ICN's request or that the Internal Revenue Service will issue a favorable ruling. Nor can we assure you that ICN will be able to obtain a favorable opinion from ICN's counsel or that the Internal Revenue Service or a court will agree with the conclusions reached in that opinion. Furthermore, ICN's commitment to effect the spin-off does not constitute a binding legal obligation to do so. See "Risk factors -- Risks relating to our separation from ICN -- ICN's commitment to distribute its interest in us in a tax-free spin-off is subject to conditions and may not occur" and "Relationship with ICN -- Tax-Free Spin-Off."

In order to facilitate this offering, ICN commenced a tender offer and consent solicitation with respect to its outstanding 8 3/4% senior notes due 2008. As presently in effect, the covenants governing the 8 3/4% senior notes would prohibit ICN from contributing to us the Schering-Plough license agreement and would impose restrictions on the conduct of our business. On March 7, 2002, ICN announced that it had received the requisite consents necessary to remove these covenants and entered into a supplemental indenture to this effect. However, the removal of the covenants will not become operative until the tendered 8 3/4% senior notes are purchased by ICN. The purchase of the 8 3/4% senior notes is expected to occur concurrently with the completion of this offering. It is a condition to the completion of this offering that the 8 3/4% senior notes are purchased pursuant to the tender offer.

Upon completion of this offering, we become jointly and severally liable with ICN for the principal and interest obligations under \$525 million of 6 1/2% subordinated notes due 2008 issued by ICN in July 2001. As between ICN and us, ICN agreed to make all interest and principal payments on these notes. However, we will be responsible for these payments to the extent ICN does not make these payments. In that event, we would have a claim against ICN for any payments ICN does not make. We can only amend this agreement, in a manner adverse to us, with the approval of holders of a majority of our outstanding shares of common stock, excluding shares held by ICN. In the event of the spin-off, a holder who converts these notes will receive, in addition to shares of ICN common stock, the same number of shares of our common stock that the holder would have received had the holder converted the notes immediately prior to the record date for the spin-off. See "Relationship with ICN -- ICN Notes."

RIBAVIRIN FOR HEPATITIS C

In 1995, ICN granted an exclusive license to Schering-Plough for all oral forms of ribavirin for the treatment of chronic hepatitis C. ICN also granted to Schering-Plough an option to license oral forms of ribavirin for additional indications we develop.

In 1998, Schering-Plough received FDA approval to market ribavirin in the United States in combination with Schering-Plough's interferon alfa-2b for the treatment of chronic hepatitis C in patients with compensated liver disease who have relapsed following alpha interferon therapy. Most hepatitis C patients have compensated liver disease. This means that these patients have relatively normal liver function. According to the World Health Organization, as many as 170 million people worldwide are infected by the hepatitis C virus. Of these, it is estimated that approximately 10 million reside in the United States, Europe and Japan.

In May 1999, the European Union granted Schering-Plough authorization to market ribavirin with interferon alfa-2b as a combination therapy in the European Union for the same patient populations as those approved in the United States.

In March 2001, the European Union granted Schering-Plough authorization to market ribavirin with pegylated interferon alfa-2b, a longer lasting form of interferon alfa-2b, as a combination therapy in the European Union for the same patient populations as those previously approved for the ribavirin and interferon alfa-2b combination therapy.

In August 2001, the FDA granted Schering-Plough authorization to market ribavirin with pegylated interferon alfa-2b as a combination therapy for the treatment of chronic hepatitis C in the United States in patients with compensated liver disease previously untreated with interferon alpha and who are at least 18 years of age.

In late 2001, Schering-Plough received marketing and pricing approval for ribavirin and interferon alfa-2b as a combination therapy for the treatment of chronic hepatitis C in Japan.

OUR TECHNOLOGY PLATFORM

We believe nucleoside analogs present significant opportunities for drug development. Nucleoside analogs treat viruses and cancers by modifying the natural structure of DNA and RNA in a way that disrupts the replication of viruses and cancer cells. The FDA has approved approximately 15 nucleoside analogs for antiviral and anticancer indications. Ribavirin is the only one of these nucleoside analogs that we own. Some of these nucleoside analogs are marketed as monotherapy treatments. Others, like ribavirin, are marketed as part of a combination therapy with other drugs. According to IMS Health Incorporated, revenues for 2000 in the United States for the top four selling nucleoside analogs were approximately \$2.6 billion. According to IMS Health Incorporated, the top four selling nucleoside analogs in the United States for 2000 were Eпивir, also known as Lamivudine, marketed by GlaxoSmithKline plc, Famvir marketed by Novartis AG, Gemzar marketed by Eli Lilly and Company and Zerit marketed by Bristol-Myers Squibb Company. We also believe that our nucleoside analog library provides a potentially greater opportunity for successful antiviral and anticancer drug discovery when compared to the random screening of large numbers of diverse chemical compounds. We base our belief on the fact that the chance of fitting molecules like nucleoside analogs to genetic targets with viruses and cancer cells is higher than the chance of fitting random unrelated small molecules to these same targets. During 2001, we acquired more than 70,000 diverse non-nucleoside compounds from third parties to complement our nucleoside analog library. These non-nucleoside compounds also target antiviral and anticancer areas.

RESEARCH AND DEVELOPMENT PROGRAM

Our research and development efforts seek to capitalize on our chemical compound library. We believe this library may provide us with a large supply of potential new drug candidates. We are screening our chemical compound library for our target indications, hepatitis C, hepatitis B, HIV and cancer.

In March 2000, we hired Johnson Y.N. Lau, MD, PhD, to lead our research and development efforts. Dr. Lau, an expert in viruses and liver diseases, was formerly senior director in antiviral research at the Schering-Plough Research Institute. We expanded our research team from 12 scientists on March 1, 2000 to approximately 100 scientists on December 31, 2001. We plan to continue to expand

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our research team to over 120 scientists by the end of 2002. We spent approximately \$6 million in each of 2000 and 2001 to upgrade and modernize our research equipment. In addition, ICN spent approximately \$12 million in 2000 and \$16 million in 2001 on capital improvements to ICN's

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headquarters. A substantial portion of these improvements were to upgrade and modernize our laboratories that we lease from ICN.

In addition to ribavirin, to date we derived four product candidates from our nucleoside analog library. These include Levovirin and Viramidine.

- Based on preclinical studies, we believe that Levovirin may have an ability to stimulate an immune response to some viral infections without the anemia associated with ribavirin. We filed an investigational new drug application to begin clinical testing of Levovirin for use in combination with interferon alpha for the treatment of hepatitis C in December 2000. Based on this investigational new drug application, we began Phase I clinical trials on Levovirin in the United States in February 2001. In June 2001, we exclusively licensed Levovirin to F. Hoffmann-La Roche for further development. See "Business -- Products in Development -- Levovirin."
- Based on preclinical studies we believe that Viramidine may generate an antiviral and immune response to hepatitis C virus infections better than ribavirin, but with less side effects. In September 2001, we initiated Phase I clinical trials on Viramidine in Europe. We filed an investigational new drug application with the FDA in December 2001. In late March 2002, we began additional Phase I clinical studies on Viramidine in the United States.

We continuously evaluate the status of the research and development programs of our product candidates. We may reduce or eliminate any of these programs if we believe that a candidate may not be successfully commercialized or if we decide to devote our resources to other product candidates.

We have an agreement that provides Schering-Plough with the option or right of first/last refusal to license various products we may develop. See "Business -- Products in Development -- November 2000 Schering-Plough Agreement."

We intend to fund our research and development from the royalty income we receive from sales of ribavirin by Schering-Plough. These royalties presently are our only source of revenues. If this royalty income decreases significantly in the future, we would need to find an alternative funding source. ICN will retain all royalty payments relating to sales of ribavirin prior to the completion of this offering. The royalty payment for sales of ribavirin in the first quarter of 2002 is payable in late May 2002. ICN will retain this royalty payment. The royalty payment for sales of ribavirin in the second quarter of 2002 is payable in late August 2002. This royalty payment will be divided between us and ICN on a pro-rata basis based on the closing date of this offering. We will retain all subsequent royalty payments. Prior to receiving our first royalty payment for sales of ribavirin, we intend to fund our operations by borrowing up to \$60 million from ICN.

OUR STRATEGY

Our objective is to be a leader in the discovery, development, acquisition and commercialization of novel drugs that can be effective in the treatment of viral

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diseases, cancer and other unmet medical needs. We plan to pursue this objective by:

- focusing on diseases that we believe provide substantial commercial opportunities;
- maximizing the value of our new product candidates by leveraging our internal development capabilities;
- accelerating development of identified drug candidates from our current product pipeline; and
- expanding our existing product pipeline and technologies through acquisitions and in-licensing opportunities.

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The offering	
Common stock offered by ICN.....	26,000,000 shares
Common stock to be outstanding after this offering	150,000,000 shares
Restrictions on directors.....	Our certificate of incorporation and bylaws provide that any person who was a director, officer, employee or consultant of ICN at any time during the immediately preceding three years will not be qualified to serve as one of our directors. This restriction will remain in place until after our 2006 annual meeting of stockholders. This provision does not apply to any person serving as one of our directors immediately following this offering.
New York Stock Exchange symbol.....	RNA
Use of proceeds.....	We will not receive any of the proceeds from the sale of the common stock in this offering.

The number of shares of our common stock shown above as offered by ICN does not include up to 3,900,000 shares which the underwriters have the option to purchase from ICN to cover over-allotments.

The number of shares of our common stock shown above as outstanding after this offering does not include the following:

- 22,500,000 shares reserved for issuance under our 2002 Stock Option Plan, including 3,075,000 shares issuable upon the exercise of options to be granted at the time of this offering with an exercise price equal to the offering price;
- 22,988,901 shares that will be reserved for issuance, in the event the spin-off is completed, upon conversion of the notes issued by ICN, assuming a distribution ratio of approximately 1.50 shares of our common stock for each share of ICN common stock in the spin-off. This distribution ratio is based upon 82,667,075 outstanding shares of ICN common stock as of March 21, 2002 and assumes that ICN sells 26,000,000

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shares of common stock in this offering and that we do not issue any additional shares after the completion of this offering, including in connection with the underwriters' over-allotment option; and

- any shares that may be reserved for issuance, in the event that the spin-off is completed, as a result of an adjustment to ICN's existing stock option plans to account for the spin-off. As of December 31, 2001, there were outstanding options to purchase 10,721,000 shares of ICN common stock. See "Relationship with ICN -- Option Grants to ICN Employees."

HOW TO CONTACT US

Our principal executive offices are located at Ribapharm Inc., 3300 Hyland Avenue, Costa Mesa, California 92626 and our telephone number is (714) 545-0100.

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ABOUT THIS PROSPECTUS

Virazole(R), Levovirin(TM), Tiazole(TM), Adenazole(TM), Viramidine(TM) and Hepavir B(TM) are our trademarks. All other brand names, trademarks or service marks referred to in this prospectus are the property of their owners. Schering-Plough markets ribavirin under the trade name Rebetron as part of a combination therapy with its interferon alfa-2b and under the trade name Peg-Intron/Rebetol as part of a combination therapy with its pegylated interferon alfa-2b. Schering-Plough also markets ribavirin as a separately packaged product under the trade name Rebetol for use in either of these combination therapies.

For ease of presentation, we will sometimes refer to Rebetol and the ribavirin component of Rebetron or Peg-Intron/Rebetol in this prospectus as ribavirin.

Unless otherwise stated, all information contained in this prospectus assumes no exercise by the underwriters of their over-allotment option.

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Summary financial data

The following table summarizes the financial data for our business during the periods indicated. You should read the data set forth below in conjunction with "Management's discussion and analysis of financial condition and results of operations" and our financial statements and related notes included elsewhere in this prospectus. We derived the statement of income data for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2001 from our audited financial statements, which are included elsewhere in this prospectus. We derived the statement of income data for the years ended December 31, 1997 and 1998 from our audited financial statements not included in this prospectus. Basic and diluted earnings per share has been calculated using the 150,000,000 shares that will be outstanding at the completion of this offering. Historical results are not necessarily indicative of the results to be expected in the future.

	YEAR ENDED DECEMBER 31,				
	1997	1998	1999	2000	2001
STATEMENT OF INCOME DATA					

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(in thousands, except per share data)

Revenues.....	\$3,223	\$36,830	\$109,592	\$154,818	\$143,622
Costs and expenses:					
Research and development.....	7,011	9,530	5,523	13,015	25,212
General and administrative.....	9,676	7,392	5,608	11,103	5,945
Total costs and expenses.....	16,687	16,922	11,131	24,118	31,157
Income (loss) before income taxes.....	(13,464)	19,908	98,461	130,700	112,465
Interest expense.....	--	--	--	--	--
Income (loss) before income taxes.....	(13,464)	19,908	98,461	130,700	112,465
Provision (benefit) for income taxes....	(4,847)	7,167	35,446	48,717	40,487
Net income (loss).....	\$(8,617)	\$12,741	\$63,015	\$81,983	\$71,978
Basic and diluted earnings (loss) per share.....	\$(.06)	\$.08	\$.42	\$.55	\$.48
Shares used in computation.....	150,000	150,000	150,000	150,000	150,000

AS OF DECEMBER 31, 2001

BALANCE SHEET DATA

ACTUAL PRO FORMA (1)

(in thousands)

Working capital.....	\$10,813	\$10,813
Total assets.....	26,634	26,634
Current liabilities.....	5,415	5,415
Total liabilities.....	5,415	530,415
Total equity (deficit).....	21,219	(503,781)

(1) Pro forma balance sheet data gives effect upon completion of this offering to our joint and several obligation with ICN for principal and interest under the 6 1/2% subordinated notes due 2008 issued by ICN. As between us and ICN, ICN agreed to make all interest and principal payments on these notes and to make any payments due upon a change of control of ICN or us. We can only amend this agreement, in a manner adverse to us, with the approval of holders of a majority of our outstanding shares of common stock, excluding shares held by ICN. We will record the obligation under the 6 1/2% subordinated notes as a receivable from ICN within stockholder's equity. This receivable from ICN will remain as a component of our equity to the extent that an obligation for principal and interest for these notes remains outstanding or until ICN can no longer make principal and interest payments as discussed above. See "Relationship with ICN -- ICN Notes."

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An investment in our common stock is risky. You should carefully consider the following risks, as well as the other information contained in this prospectus. If any of the following risks occur, our business could be harmed. In that case, the trading price of our common stock could decline and you might lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

BECAUSE WE WILL NOT RECEIVE ANY OF THE PROCEEDS FROM THE SALE OF OUR COMMON STOCK IN THIS OFFERING, WE WILL BE DEPENDENT ON ALTERNATIVE FINANCING SOURCES TO FUND OUR OPERATIONS.

ICN will receive all of the proceeds from the sale of our common stock in this offering. The royalties we receive from Schering-Plough presently represent substantially all of our revenues. As a result, we will be dependent upon these royalties to fund our operations. Until we receive our first royalty payment for sales of ribavirin in the second quarter of 2002 payable in late August 2002, we intend to finance our operations by borrowing up to \$60 million from ICN. If ICN were unable to provide us with this financing, other financing might not be available on economically favorable terms, if at all.

WE WILL CONTINUE TO BE CONTROLLED BY ICN AS LONG AS IT OWNS OVER 50% OF THE COMBINED VOTING POWER OF OUR STOCK, AND WE MAY HAVE CONFLICTS WITH ICN THAT MAY BE RESOLVED IN A MANNER UNFAVORABLE TO US.

After the completion of this offering, ICN will beneficially own approximately 82.67% of our outstanding shares of common stock. Our certificate of incorporation and bylaws provide that any person who was a director, officer, employee or consultant of ICN at any time during the immediately preceding three years will not be qualified to serve as one of our directors. This restriction will remain in place until after the 2006 annual meeting of stockholders but is subject to amendment by our board of directors and, as is the case with any amendment to our certificate of incorporation, the holders of at least 66 2/3% of our outstanding shares of common stock. This restriction on persons serving as our directors does not apply to any person serving as one of our directors immediately following this offering. As long as ICN owns a majority of our outstanding shares of common stock, ICN will be able to determine the outcome of most matters requiring approval by our stockholders. These matters include the election of our directors, mergers, consolidations or a sale of substantially all of our assets. As long as ICN owns a majority of our outstanding shares of common stock, action may be taken by written consent without a stockholders' meeting. ICN may exercise this ability in a manner that advances its best interests and not those of our other stockholders. For example, ICN could unilaterally replace our entire board of directors without action by our other stockholders.

We may have conflicts with ICN after this offering that we cannot resolve and, even if we are able to do so, the resolution of these conflicts may not be as favorable as if we were dealing with an unaffiliated party. Upon the completion of this offering, we will have arrangements with ICN requiring ICN and its affiliates to provide us with various interim, ongoing and other services. As a result, conflicts of interest may arise between ICN and us in a number of areas relating to our past and ongoing relationships, including:

- major business combinations by us;
- sales or distributions by ICN of all or any portion of its ownership interest in us;
- ICN's ability to control our management and affairs;

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- the nature, quality and pricing of transitional services ICN has agreed to provide us;
- our lease of our laboratory and office facilities from ICN;
- business opportunities that may be attractive to both ICN and us; and
- litigation, labor, tax, employee benefit and other matters arising from our separation from ICN.

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RISK FACTORS

In preparation for this offering, we entered into a number of intercompany agreements with ICN. The terms of those intercompany agreements were determined by ICN in a manner that ICN believed would be reasonable for both ICN and us. The prices and other terms under these agreements may be less favorable to us than those we could have obtained in arm's-length negotiations with unaffiliated third parties for similar services or under similar agreements. ICN has advised us that it will observe any fiduciary duties as our majority stockholder it may have to our other stockholders. For more information about these agreements, see "Relationship with ICN." In addition, after this offering, a number of our directors and executive officers will continue to own ICN stock and options on ICN stock that they acquired as employees of ICN. This ownership could create, or appear to create, potential conflicts of interest when these directors and officers are faced with decisions that could have different implications for our company and ICN. These conflicts may not ultimately be resolved in a manner fair to us.

IF OUR ROYALTIES FROM SCHERING-PLOUGH DECLINE SIGNIFICANTLY IN THE FUTURE, WE MAY NOT HAVE SUFFICIENT FUNDS TO OPERATE OUR BUSINESS.

We are dependent upon royalties from our license agreement with Schering-Plough for ribavirin to fund our research and development program. During the term of the license agreement, Schering-Plough has sole discretion to determine the pricing of ribavirin and the amount and timing of resources devoted to the marketing of ribavirin. Any significant decrease in royalties from this license agreement could require us to cut back on our research and development expenditures and other activities. We also may not be able to repay any borrowings we have incurred in anticipation of receiving these royalties.

In addition, ICN has advised us that Schering-Plough has informed ICN that it believes royalties paid under the ribavirin license agreement should not include royalties on products distributed as part of an indigent patient marketing program. Schering-Plough claims that because it receives no revenue from products given to indigent patients, it is not required to pay royalties on these products under the ribavirin license agreement. We and ICN do not agree with Schering-Plough's interpretation of the agreement. In August 2001, Schering-Plough withheld approximately \$11.6 million from its royalty payment relating to the second quarter of 2001. The amount withheld was purportedly intended by Schering-Plough to be a retroactive adjustment of royalties previously paid to ICN through the third quarter of 2000 on products distributed as part of this indigent patient marketing program. Since the beginning of the fourth quarter of 2000, Schering-Plough is withholding on a current basis all royalty payments purportedly related to this indigent patient marketing program. We recognized the approximately \$11.6 million of withheld royalty payments for the retroactive adjustment and approximately \$3 million of royalty payments withheld for the fourth quarter of 2000 and the first quarter of 2001 as income. These amounts appear on our balance sheet as a receivable. Since the second

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quarter of 2001, we no longer recognize any of these withheld royalty payments as income because we can no longer determine the amounts due to a lack of information from Schering-Plough.

ICN has given Schering-Plough written notice of its intention to arbitrate this royalty payment dispute to collect these royalties and prevent Schering-Plough from withholding royalty payments on sales under the indigent patient marketing program in the future. The parties expect to select an arbitrator and set an arbitration schedule during April 2002. If ICN does not succeed in this alternative dispute resolution process, we may have to write off all or a portion of this receivable. If ICN does succeed, we will be entitled to receive the royalty payments on these indigent sales withheld by Schering-Plough. See "Business -- Legal Proceedings of ICN -- Arbitration with Schering-Plough."

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Royalties received from the sale of ribavirin by Schering-Plough could also decline in the future for a variety of other reasons, including:

- reductions in the pricing of ribavirin by Schering-Plough or in reimbursement by health care payors;
- the expiration or invalidation of the patents related to ribavirin;
- a decrease in Schering-Plough's marketing efforts;
- fluctuations in foreign currency exchange rates;
- an increase in the severity or frequency of side effects associated with ribavirin, the Rebetron or Peg-Intron/Rebetol combination therapies, interferon alfa-2b or pegylated interferon alfa-2b, or the discovery of other harmful effects attributable to these drugs and therapies;
- the suspension or withdrawal of the FDA's approval of ribavirin marketed by Schering-Plough or changes in the terms of that approval or the approved labeling for ribavirin;
- any FDA or court imposed restrictions on the manner in which ribavirin is promoted; and
- any reduction in supplies due to a natural or accidental disaster or regulatory concerns like good manufacturing practices compliance.

In addition, future royalties from Schering-Plough may also decrease if competing therapies are developed for the treatment of hepatitis C. Competing therapies may include:

- Copegus, a form of ribavirin, being developed by F. Hoffmann-La Roche;
- generic or follow-on forms of ribavirin manufactured by others, including Geneva Pharmaceuticals Technology Corporation, Three Rivers Pharmaceuticals, LLC and Teva Pharmaceuticals USA, Inc.;
- pegylated interferon developed by F. Hoffmann-La Roche;
- Infergen being developed by InterMune, Inc.;
- Albuferon being developed by Human Genome Sciences, Inc.;

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- natural interferon being developed by Viragen, Inc.; and
- protease and polymerase inhibitors being developed by Eli Lilly and Company, Vertex Pharmaceuticals Incorporated, ViroPharma Incorporated, American Home Products Corporation, Schering-Plough, Merck & Co. Inc. and Boehringer Ingelheim.

Other companies that engage in research activities similar to our research activities include Abbott Laboratories, Chiron Corporation, Bristol-Myers Squibb Company, Triangle Pharmaceuticals, Inc., GlaxoSmithKline plc and Novartis AG.

OTHER PHARMACEUTICAL COMPANIES ARE SEEKING TO INTRODUCE COMPETING VERSIONS OF RIBAVIRIN TO THE MARKET WITHOUT OBTAINING A LICENSE FROM US.

We depend on the protection afforded by our patents and patents of Schering-Plough relating to ribavirin for market exclusivity. We have three US patents relating to ribavirin for use as part of a combination therapy for the treatment of hepatitis C. In addition, Schering-Plough has at least three US patents relating to ribavirin for use as part of a combination therapy for the treatment of hepatitis C.

Three generic pharmaceutical companies, Geneva Pharmaceuticals Technology Corporation, Three Rivers Pharmaceuticals, LLC and Teva Pharmaceuticals USA, Inc., have filed abbreviated new drug applications to market generic forms of ribavirin for use as part of a combination therapy for the treatment of hepatitis C. ICN has sued two of these pharmaceutical companies, and the parent of one of these companies, to prevent these two companies from marketing a generic form of ribavirin. Schering-Plough has sued all three of these companies to prevent them from marketing a generic form

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of ribavirin. See "Business -- Ribavirin for hepatitis C -- Patent and regulatory strategy." Unlike a new drug application, the Federal Food, Drug and Cosmetic Act, as amended by the Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, generally prohibits the FDA from giving final marketing approval of a generic drug for 30 months after these generic applications for ribavirin were filed. However, the FDA could grant marketing approval prior to expiration of this 30-month stay if a court rules that our patents are invalid or unenforceable or that a generic manufacturer of ribavirin would not infringe our patents. There is also a risk that other pharmaceutical companies will file abbreviated new drug applications without notifying us. The FDA may approve these applications without giving us a chance to bring litigation.

We understand that F. Hoffmann-La Roche has developed its own version of ribavirin, which it calls Copegus, for use in combination therapy with F. Hoffmann-La Roche's version of pegylated interferon, called Pegasys, for the treatment of hepatitis C. Schering-Plough has advised us that it has licensed its patents relating to ribavirin as part of a combination therapy for the treatment of hepatitis C to F. Hoffmann-La Roche in connection with the settlement between Schering-Plough and F. Hoffmann-La Roche of litigation between them relating to pegylated interferon. In addition, F. Hoffmann-La Roche has filed a notice of opposition with the European Patent Office seeking to invalidate Ribapharm's issued European patents relating to ribavirin. It is also possible that F. Hoffmann-La Roche will challenge our US patents. We believe that F. Hoffmann-La Roche may have filed a new drug application in the United

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States and the European Union seeking approval for Copegus for use as part of a combination therapy with Pegasys for the treatment of hepatitis C. Since new drug applications are not publicly available, we are unable to confirm whether F. Hoffmann-La Roche made a new drug application filing for Copegus or when this filing might have been made. Unlike an abbreviated new drug application filing under the Hatch-Waxman Act, the FDA could approve this new drug application at any time.

If any other pharmaceutical company is able to obtain regulatory approval of a competing version of ribavirin for use as part of a combination therapy for the treatment of hepatitis C without obtaining a license from us, our royalties from sales of ribavirin by Schering-Plough may decrease significantly. See "Business -- Ribavirin for Hepatitis C -- Patent and regulatory strategy."

OBTAINING NECESSARY GOVERNMENT APPROVALS IS TIME-CONSUMING AND NOT ASSURED.

We must obtain FDA approval in the United States and approval from comparable agencies in other countries prior to marketing or manufacturing new pharmaceutical products, including biological products, intended for use by humans. These approvals do not ensure that a product will be commercially successful.

Obtaining FDA approval for new products and manufacturing processes can take a number of years and involves the expenditure of substantial resources. We must satisfy numerous requirements, including preliminary testing programs on animals and subsequent clinical testing programs on humans, to establish product safety and efficacy. Pre-clinical studies and clinical trials are inherently unpredictable. Clinical trials can be delayed or halted for various reasons, including disagreements with the FDA over protocol design, the inability to enroll a sufficient quantity of patients in the clinical trials at the rate we expect, the inability to maintain a supply of the investigational drug in sufficient quantities to support the trial, the reporting of severe adverse side effects or fatalities during or following the trial or a finding during the trial that the drug is not effective for the particular indication being studied. Even if our clinical trials are successful, we may not secure authorization for the commercial sale of any new drugs or compounds for any application, or for existing drugs or compounds for new applications in the United States or any other country.

The FDA and foreign regulatory authorities have substantial discretion in the approval process and may disagree with our interpretation of the data from our trials. Even if we do secure authorization,

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the FDA or a foreign regulatory authority may impose restrictions on the distribution of the product and may request that we conduct ongoing post-marketing studies of the product. In addition, the approved labeling may have significant labeling limitations that could affect our ability to market the product and, in turn, our profitability. For example, the FDA may require distribution to patients of a medication guide for prescription drug products that the FDA determines pose a serious and significant health concern in order to provide information necessary to patients' safe and effective use of these products. The FDA's approval of Schering-Plough's pegylated interferon alfa-2b in combination with ribavirin included a requirement to conduct post-marketing studies, as well as a requirement to distribute a medication guide.

After a product is approved or licensed for marketing, it remains subject to

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extensive regulatory control, including FDA adverse event reporting requirements and FDA requirements governing product distribution, advertising, and promotion. Newly discovered or developed safety or efficacy data may require changes to a product's approved labeling, including the addition of new warnings and contraindications, or even in some instances revocation or withdrawal of the approval. For example, the approved labeling for Schering-Plough's Rebetol includes strong warnings against the use of ribavirin by persons with cardiac disease and by women who are or may become pregnant.

The FDA and regulatory agencies in other countries also periodically inspect manufacturing facilities, including third parties who manufacture our products or our active ingredients for us. Pharmaceutical manufacturing facilities must comply with applicable good manufacturing practice standards, and manufacturers usually must invest substantial funds, time and effort to ensure full compliance with these standards. Failure to comply with applicable regulatory requirements can result in sanctions, fines, delays or suspensions of approvals, seizures or recalls of products, operating restrictions, manufacturing interruptions, costly corrective actions, injunctions, adverse publicity against us and our products and criminal prosecutions. Furthermore, changes in existing regulations or adoption of new regulations could prevent or delay us from obtaining future regulatory approvals or jeopardize existing approvals. See "Business -- Government Regulation."

Further, as a result of a legal proceeding involving ICN, we may for a period of time be required to pre-clear with the FDA any public communication concerning any matter subject to FDA regulation. See "Business -- Legal Proceedings of ICN -- SEC litigation and US Attorney investigation."

BECAUSE OUR EFFORTS TO DISCOVER, DEVELOP AND COMMERCIALIZE NEW PRODUCT CANDIDATES ARE IN A VERY EARLY STAGE, THESE EFFORTS ARE SUBJECT TO HIGH RISK OF FAILURE.

A key component of our strategy is to discover, develop and commercialize new product candidates. The process of successfully commercializing product candidates is very time-consuming, expensive and unpredictable. We have only recently begun to direct significant efforts toward the expansion of our scientific staff and research capabilities in order to pursue this strategy.

We may not identify any additional compounds from our chemical compound library that we believe have sufficient commercial promise to warrant further development. Furthermore, compounds selected from the library for development may not be patentable. Also, our development work may not identify patentable uses.

Clinical trials may not demonstrate that our products are safe or effective. Even if we successfully complete clinical trials, we may not be able to obtain the required regulatory approvals to commercialize any product candidate. For example, prior to its approval as part of the combination therapy to treat hepatitis C patients, the FDA denied our request for regulatory approval to market ribavirin as a monotherapy to treat hepatitis C. If we gain regulatory approval for a product, the approval will be limited to those diseases for which our clinical trials demonstrate the product is safe and effective. To date, ribavirin is our only product that has received regulatory approval for

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commercial sale. A more detailed discussion regarding government regulation of our products is included in this prospectus under the heading

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"Business -- Government Regulation."

IF OUR INTELLECTUAL PROPERTY RIGHTS EXPIRE OR ARE NOT BROAD ENOUGH, OUR ABILITY TO COMPETE IN OUR MARKETS MAY BE IMPAIRED BECAUSE THIRD PARTIES MAY BE ABLE TO USE OUR TECHNOLOGY OR SELL GENERIC FORMS OF OUR PRODUCTS.

Our success will depend in part on our ability to obtain and maintain meaningful patent protection for our products or product candidates throughout the world. The patent positions of pharmaceutical, biopharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. We seek patents to protect our intellectual property and to enhance our competitive position. We will be able to protect our intellectual property rights from unauthorized use by third parties only to the extent that our technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. However, our presently pending or future patent applications may not issue as patents. Any patent issued to us may be challenged, invalidated, held unenforceable or circumvented. Furthermore, our patents may not be sufficiently broad to prevent third parties from producing competing products. See "-- Other pharmaceutical companies are seeking to introduce competing versions of ribavirin to the market without obtaining a license from us."

In order to protect or enforce our patent rights, we may initiate patent litigation against third parties, and we may be similarly sued by others. We may also become subject to interference proceedings conducted in the patent and trademark offices of various countries to determine the priority of inventions. The defense and prosecution, if necessary, of intellectual property actions is costly and diverts our technical and management personnel from their normal responsibilities. We may not prevail in any of these suits. An adverse determination of any litigation or defense proceedings may put our patents at risk of being invalidated or interpreted narrowly and may put our patent applications at risk of not issuing.

We have limited patent rights in selected countries of the European Union, Switzerland and Japan relating to the antiviral use of ribavirin. These patents are currently scheduled to expire by 2005, although we are seeking to extend these patents until 2010. We may not be able to have these patents extended.

ICN previously licensed six chemical compounds to Dr. Devron Averett, a former research director of ICN. ICN did not contribute any of these six compounds to us. ICN will retain the rights to any royalties that may become payable under this license with respect to these six chemical compounds. Dr. Averett and his employer and sublicensee, Anadys Pharmaceuticals, Inc., have, from time to time, asserted that the license may cover additional compounds that ICN has contributed to us, including Levovirin and Viramidine. Dr. Averett and Anadys have not taken legal action to enforce these alleged rights. ICN has advised us that it believes that these assertions are without merit. If Dr. Averett and Anadys were to have rights to Levovirin and/or Viramidine, this may materially adversely affect our ability to commercialize Viramidine and may materially adversely affect our license agreement related to Levovirin with F. Hoffmann-La Roche. In addition, to the extent Dr. Averett and Anadys have rights to other compounds in our library, we could be precluded from commercializing these other compounds.

Some of the compounds in our compound library may have been patented previously or otherwise disclosed to the public. This would prevent us from obtaining patent protection for the compounds themselves. In these cases, we intend to seek patent protection for our intended uses of these compounds or for derivatives of these compounds.

We licensed rights in IL-12 from F. Hoffmann-La Roche, including the non-exclusive rights to IL-12 that F. Hoffmann-La Roche had previously licensed

from Genetics Institute. We may also need to

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pursue a license agreement from Genetics Institute. If we are required to obtain license rights from Genetics Institute, we cannot assure you that we will be able to do so on terms acceptable to us.

Because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during intellectual property litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments in the litigation. If securities analysts or investors perceive these results to be negative, it could have a substantial negative effect on the trading price of our common stock.

We have filed a trademark registration application with the US Patent and Trademark Office for the mark RIBAPHARM. Our application was published in the Federal Register on January 8, 2002 and is subject to opposition for a period of one month after that date unless an extension is granted. We believe that the opposition period expired without any opposition or notice of opposition being filed. Although we expect to be able to register this mark, if we cannot, we may choose a different mark. We also reserve the right to change our company name. Furthermore, we may be subject to monetary damages for infringing any other company's right to the mark RIBAPHARM.

See "Business -- Patents and Proprietary Technology" and "Business -- Ribavirin for Hepatitis C -- Patent and regulatory strategy."

IF COMPETITORS DEVELOP MORE EFFECTIVE OR LESS COSTLY DRUGS FOR OUR TARGET INDICATIONS, OUR BUSINESS COULD BE SERIOUSLY HARMED.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Ribavirin and many of the drugs that we are attempting to discover will be competing with new and existing therapies. Many companies in the United States and abroad are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. We believe that a significant number of drugs are currently under development and may become available in the future for the treatment of hepatitis C, hepatitis B, HIV and cancer. For example, F. Hoffmann-La Roche is developing a modified form of interferon, called pegylated interferon, for the treatment of hepatitis C. In addition, in October 2000, Human Genome Sciences, Inc. submitted an investigational new drug application with the FDA to initiate Phase I human clinical trials of Albuferon for the treatment of hepatitis C.

If pegylated interferon, Albuferon, Copegus or other therapies prove to be a more effective treatment for hepatitis C than the combination therapies or if the FDA approves any generic or other form of ribavirin, then our royalty revenues from Schering-Plough could significantly decrease. See " -- Other pharmaceutical companies are seeking to introduce competing versions of ribavirin to the market without obtaining a license from us" and "Business -- Ribavirin for Hepatitis C -- Developments related to new forms of interferon."

Many of our competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than we do. We believe that many of our competitors spend significantly more on research and

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development related activities than we do. Others may succeed in developing products that are more effective than those presently marketed or proposed for development by us. Progress by other researchers in areas similar to those being explored by us may result in further competitive challenges. We may also face increased competition from manufacturers of generic pharmaceutical products when the patents covering some of our products expire. In addition, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection with respect to potentially competitive products. They may also establish exclusive collaborative or licensing relationships with our competitors.

See "Business -- Ribavirin for Hepatitis C -- Patent and regulatory strategy."

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IF WE FAIL TO MEET OUR INDEBTEDNESS OBLIGATIONS, OUR BUSINESS COULD BE IMPAIRED.

Upon completion of this offering, we will be jointly and severally liable with ICN for principal and interest for \$525 million of subordinated notes issued by ICN in July 2001. As between ICN and us, ICN agreed to make all interest and principal payments on these notes. However, we will be responsible for these payments to the extent ICN does not make these payments. In that event, we would have a claim against ICN for any payments ICN does not make. We also will enter into an agreement with ICN providing that we may borrow up to \$60 million from ICN and we may incur additional indebtedness in the future. Our level of indebtedness may have several important effects on our future operations, including:

- adversely affecting our ability to carry out our business strategy;
- increasing the impact on our business of negative changes in general economic and industry conditions, as well as competitive pressures; and
- affecting our ability to obtain additional financing for working capital, capital expenditures or general corporate purposes.

General economic conditions, industry cycles and financial, business and other factors affecting our operations may affect our future performance. Many of these factors are beyond our control. These and other factors may affect our ability to make principal and interest payments on our indebtedness, including on the notes if ICN does not make the required payments. If we cannot generate sufficient cash flow from operations in the future to service our debt, we may:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets; or
- reduce or delay planned capital or research and development expenditures.

These measures might not be sufficient to enable us to service our debt. In addition, any financing, refinancing or sale of assets might not be available on economically favorable terms, if at all.

BECAUSE OUR EXPENSES WILL INCREASE SIGNIFICANTLY FROM PRIOR LEVELS, OUR HISTORICAL FINANCIAL INFORMATION MAY NOT BE REPRESENTATIVE OF OUR FUTURE RESULTS.

Prior to this offering, we have not operated as a stand-alone entity. Our research and development activities have increased significantly since we hired Dr. Johnson Lau in March 2000. As a result, the historical financial information we have included in this prospectus may not reflect what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods presented. This information may also not be indicative of what our results of operations, financial position and cash flows will be in the future. As a result, there is limited information which you have to evaluate our business and your investment decision. This is because:

- as a division of ICN, ICN provided us with various services and allocated expenses for these services to us in amounts that may not have been the same as the expenses we would have incurred had we performed or acquired these services ourselves;
- the information does not reflect other events and changes that will occur as a result of our separation from ICN, including the establishment of our capital structure and changes in our expenses as a result of new employee plans, our tax sharing agreement with ICN, and other matters; and
- we are in the process of significantly expanding our research and development activities in connection with the implementation of our business strategy, including our plan to spend approximately \$140 million in 2002 and 2003 on research and development activities.

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IF WE ARE UNABLE TO ATTRACT AND RETAIN KEY RESEARCH SCIENTISTS AND OTHER RESEARCH AND DEVELOPMENT PERSONNEL, WE MAY NOT BE ABLE TO IMPLEMENT OUR BUSINESS STRATEGY.

We depend on the principal members of our scientific staff, including Dr. Johnson Lau. We intend to enter into employment agreements with our executive officers, including Dr. Lau. The loss of services of any of these persons could delay or reduce our product development and commercialization efforts. Our success depends upon our ability to attract, train, motivate and retain qualified scientific personnel. Qualified personnel are in great demand throughout the biotechnology and pharmaceutical industries. We expanded our research team from 12 scientists on March 1, 2000 to approximately 100 scientists on December 31, 2001. We plan to continue to expand our research team to over 120 scientists by the end of 2002. However, we may not be able to attract additional personnel or retain existing employees.

In addition, the existence of non-competition agreements between prospective employees and their previous employers may prevent us from hiring these individuals, or subject us to suit from their former employers.

IF OUR PRODUCTS ARE ALLEGED TO BE HARMFUL, WE MAY NOT BE ABLE TO SELL THEM AND WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS NOT COVERED BY INSURANCE.

The nature of our business exposes us to potential liability risks inherent in the testing, manufacturing and marketing of pharmaceutical products. Using our drug candidates in clinical trials may expose us to product liability claims. These risks will expand with respect to drugs, if any, that receive regulatory approval for commercial sale. Even if a drug were approved for commercial use by an appropriate governmental agency, there can be no assurance that users will

not claim that effects other than those intended may result from our products. We generally self-insure against potential product liability exposure with respect to our marketed products, including ribavirin. While to date no material adverse claim for personal injury resulting from allegedly defective products, including ribavirin, has been successfully maintained against us, a substantial claim, if successful, could have a negative impact on us.

In the event that anyone alleges that any of our products are harmful, we may experience reduced consumer demand for our products or our products may be recalled from the market. In addition, we may be forced to defend lawsuits and, if unsuccessful, to pay a substantial amount in damages. We do not currently have insurance against product liability risks. Insurance is expensive and, if we seek insurance in the future, it may not be available on acceptable terms. Even if obtained, insurance may not fully protect us against potential product liability claims.

We maintain insurance covering normal business operations, including fire, property and casualty protection. We will not carry insurance that covers political risk, nationalization or losses resulting from anti-government violence.

IF WE ARE UNABLE TO USE OUR FACILITIES, IT WOULD BE COSTLY AND DISRUPTIVE TO FIND OTHER FACILITIES.

We do not own our laboratory and office facilities. We lease our laboratory and office facilities from ICN under a lease which expires in 2007, with a five-year option by us to renew. If our lease terminates earlier than contemplated by our lease with ICN or we are unable to use our facilities for some other reason, it would be very costly and disruptive to find other comparable facilities. Since 2000, ICN spent approximately \$28 million on capital improvements to its headquarters. A substantial portion of these improvements were to upgrade and modernize our laboratories that we lease from ICN.

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IF WE CANNOT SUCCESSFULLY DEVELOP OR OBTAIN FUTURE PRODUCTS, OUR GROWTH MAY BE DELAYED.

Our future growth will depend, in large part, upon our ability to develop or obtain and commercialize new products and new formulations or indications relating to products. We are engaged in an active research and development program involving compounds owned by us or licensed from others which we may commercially develop in the future. Although Schering-Plough has received regulatory approvals for the sale of oral ribavirin for treatment of chronic hepatitis C in combination with Schering-Plough's interferon alfa-2b and pegylated interferon alfa-2b, there can be no assurance that we will be able to develop or acquire new products, obtain regulatory approvals to use these products for proposed or new clinical indications, manufacture our potential products in commercial volumes or gain market acceptance for such products. It may be necessary for us to enter into other licensing agreements, similar to our agreement with Schering-Plough for ribavirin and F. Hoffmann-La Roche for Levovirin, with other pharmaceutical companies in order to market effectively any new products or new indications for existing products. There can be no assurance that we will be successful in entering into any new licensing agreements on terms favorable to us or at all. We have granted Schering-Plough an option or right of first/last refusal to license various compounds we may develop. See "Business -- Products in Development -- November 2000 Schering-Plough Agreement."

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OUR FLEXIBILITY IN MAXIMIZING COMMERCIALIZATION OPPORTUNITIES FOR OUR COMPOUNDS MAY BE LIMITED BY OUR OBLIGATIONS TO SCHERING-PLOUGH.

In November 2000, we entered into an agreement that provides Schering-Plough with an option or right of first/last refusal to license various compounds we may develop. This agreement was entered into as part of a resolution of claims asserted by Schering-Plough against us and ICN regarding our alleged improper hiring of several former Schering-Plough research and development personnel and claims that our license agreement with Schering-Plough precluded us from conducting hepatitis C research. We believe we are in compliance with our obligations under this agreement. The interest of potential collaborators in obtaining rights to our compounds or the terms of any agreements we ultimately enter into for these rights may be impacted by this agreement. Furthermore, a commercialization partner other than Schering-Plough might have otherwise been preferable due to that potential partner's strength in a given disease area or geographic region or for other reasons. See "Business -- Products in Development -- November 2000 Schering-Plough Agreement."

In June 2001, we licensed Levovirin to F. Hoffmann-La Roche. See "Business -- Products in Development -- Levovirin." Our agreement with Schering-Plough granted Schering-Plough a right of first/last refusal to license Levovirin. Although we believe we have complied with our obligations under the right of first/last refusal, and Schering-Plough has not alleged otherwise, Schering-Plough may allege in the future that we did not comply with these obligations as to Levovirin.

IF WE DO NOT DEVELOP OUR OWN MANUFACTURING, SALES, MARKETING AND DISTRIBUTION CAPABILITIES, WE WILL REMAIN DEPENDENT ON THIRD PARTIES TO MANUFACTURE AND COMMERCIALIZE OUR PRODUCTS.

We currently have no manufacturing, sales, marketing or distribution capabilities. Other than our agreements with Schering-Plough and F. Hoffmann-La Roche, we currently have no agreements with third parties to manufacture, sell, market or distribute our products. If we do not develop our own internal capabilities, we will have to rely on third parties to manufacture, sell, market and distribute some or all of our products. We may have limited or no control over the activities of these third parties. These third parties may not be able to manufacture or market our products successfully. The agreement we entered into with Schering-Plough which grants Schering-Plough rights of first/last refusal to license compounds we may develop may restrict our ability to manufacture, sell, market or distribute our products with third parties. This could prevent us from obtaining the increased revenue and assistance that agreements with other third parties could provide. Before we can manufacture, sell, market or distribute products, we will need to build manufacturing capacity and a marketing and sales

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force with technical expertise and with supporting distribution capabilities. In January 2002, due to demand in excess of its manufacturing capacity of the pegylated interferon alfa-2b component of the combination therapy, Schering-Plough announced it started a waiting list for new patients to begin treatment with ribavirin in combination with Schering-Plough's pegylated interferon alfa-2b. Schering-Plough announced that new patients would have to wait for a period of 10 to 12 weeks to begin treatment with the combination therapy. See "Business -- Ribavirin for Hepatitis C -- Schering-Plough license agreement" and "Business -- Products in Development -- November 2000

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Schering-Plough Agreement."

OUR THIRD-PARTY MANUFACTURERS' FAILURE TO COMPLY WITH FDA REGULATIONS COULD CAUSE INTERRUPTION OF THE MANUFACTURE OF OUR PRODUCTS.

We do not have the internal capability to manufacture pharmaceutical products. Schering-Plough manufactures the ribavirin sold under license from us. Our manufacturers are required to adhere to regulations enforced by the FDA. Our dependence upon others to manufacture our products may adversely affect our profit margins and our ability to develop and commercialize products on a timely and competitive basis. Delays or difficulties with contract manufacturers in producing, packaging or distributing our products could adversely affect sales of ribavirin or introduction of other products.

In February 2001, Schering-Plough announced that the FDA has been conducting inspections of various Schering-Plough manufacturing facilities and issued reports citing deficiencies concerning compliance with current good manufacturing practices, primarily relating to production processes, controls and procedures. In June 2001, Schering-Plough announced that FDA inspections at some of these facilities in May and June 2001 cited continuing and additional deficiencies in manufacturing practices. In January 2002, Schering-Plough announced that it was in negotiations with the FDA for a consent decree to resolve the issues regarding the FDA inspections. Schering-Plough also announced that it recorded a \$500 million reserve against a possible consent decree payment. While Schering-Plough has advised us that the deficiencies were not specifically applicable to the production of ribavirin, any deviations from current good manufacturing practices can affect the capabilities of a manufacturing site. Schering-Plough's ability to manufacture and ship ribavirin, interferon alfa-2b and pegylated interferon alfa-2b could be affected by temporary or indefinite interruptions of some production lines to install system upgrades and further enhance compliance, and other technical production and equipment qualification issues.

If the FDA is not satisfied with Schering-Plough's responses and proposed corrective action, the FDA could take regulatory actions against Schering-Plough, including seizure of products, injunction against further manufacture, recall or other actions that could interrupt production of ribavirin or the products used in combination with ribavirin. Interruption of ribavirin or related product manufacturing for a sustained period of time could materially reduce our royalty payments.

WE ARE SUBJECT TO UNCERTAINTY RELATED TO HEALTH CARE REFORM MEASURES AND REIMBURSEMENT POLICIES.

The levels at which government authorities, private health insurers, HMOs and other organizations reimburse the costs of developing and manufacturing drugs and treatments related to those drugs will have an effect on the successful commercialization of our drug candidates. We cannot be sure that reimbursement in the United States or elsewhere will be available for any drugs we may develop or, if already available, will not be decreased in the future. Also, we cannot be sure that reimbursement amounts will not reduce the demand for, or the price of, our drugs. If reimbursement is not available or is available only to limited levels, we may not be able to obtain a satisfactory financial return on the manufacture and commercialization of any future drugs. In addition, as a result of the trend towards managed health care in the United States, as well as legislative proposals to reduce government insurance programs, third-party payors are increasingly attempting to contain health care

costs by limiting both coverage and the level of reimbursement of new drug products. Consequently, significant uncertainty exists as to the reimbursement status of newly-approved health care products. Third-party payors may not establish and maintain price levels sufficient for us to realize an appropriate return on our investment in product development.

IF WE FAIL TO MANAGE OUR EXPANSION, OUR BUSINESS COULD BE IMPAIRED.

We are in the process of significantly increasing the number of our employees and expanding the scope of our operations. We expanded our research team from 12 scientists on March 1, 2000 to approximately 100 scientists on December 31, 2001. We plan to continue to expand our research team to over 120 scientists by the end of 2002. We spent approximately \$6 million in each of 2000 and 2001 to update and modernize our research equipment. In addition, ICN spent approximately \$12 million in 2000 and \$16 million in 2001 on capital improvements to ICN's headquarters. A substantial portion of these improvements were to upgrade and modernize our laboratories that we lease from ICN. This internal expansion and any acquisitions of products or businesses we make will result in an increase in responsibilities for both existing and new management personnel. Our ability to manage our expansion and acquisitions effectively will require us to continue to implement and improve our operational, financial and management information systems. We may also have to recruit additional employees. If we fail to manage our research and development expansion, our business could be impaired.

IF OUR COMPOUND LIBRARY IS DESTROYED BECAUSE OF AN EARTHQUAKE OR OTHER DISASTER, OUR RESEARCH AND DEVELOPMENT PROGRAM WILL BE SERIOUSLY HARMED.

The laboratory books and the compounds that comprise our compound library are all located at our facilities in Costa Mesa, California, near areas where earthquakes have occurred in the past. There are no duplicate copies off-premises and there are no backup materials for the product candidates we are currently developing. No duplicate copies of our compound library exist because making copies would be prohibitively expensive. The library has not been moved off-site because our scientific staff is currently in the process of screening it. Our ability to develop potential product candidates from our compound library would be significantly impaired if these records were destroyed in an earthquake or other disaster. Any insurance we maintain may not be adequate to cover our losses.

IF WE USE BIOLOGICAL AND HAZARDOUS MATERIALS IN A MANNER THAT CAUSES INJURY OR VIOLATES LAWS, WE MAY BE LIABLE FOR DAMAGES NOT COVERED BY INSURANCE.

Our research and development activities involve the controlled use of potentially harmful biological materials as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result. Any liability could exceed our resources. We are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with, or any potential violation of, these laws and regulations could be significant. Any insurance we maintain may not be adequate to cover our losses.

IF WE ACQUIRE EXCESS CASH FROM OUR OPERATIONS, THE TYPES OF INVESTMENTS IN WHICH WE MAY BE ABLE TO INVEST THIS CASH MAY BE LIMITED.

The Investment Company Act of 1940 requires registration as an investment company for companies that are engaged primarily in the business of investing,

reinvesting, owning, holding or trading in securities. Unless an exemption or safe harbor applies, a company may be deemed to be an investment company if it owns "investment securities" with a value exceeding 40% of the value of its total assets on an unconsolidated basis, excluding government securities and cash items. Securities issued by

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companies other than majority-owned subsidiaries are generally counted as investment securities for purposes of the Investment Company Act.

If we acquire significant amounts of cash from our royalty payments which are not used in our operations, we will be limited in our ability to invest these excess cash reserves. If we were to invest even a small percentage of this excess cash in speculative investment securities, we could be considered an investment company. However, under interpretations by the staff of the SEC, we would not be considered an investment company if we invest this cash in various non-speculative investment securities and engage in activities that are consistent with our goal of discovering, developing and commercializing antiviral and anticancer medications.

Registration as an investment company would subject us to restrictions that are inconsistent with our fundamental business strategies. We may have to take actions, including buying, refraining from buying, selling or refraining from selling securities, when we would otherwise not choose to in order to continue to avoid registration under the Investment Company Act.

RISKS RELATING TO OUR SEPARATION FROM ICN

ICN'S COMMITMENT TO DISTRIBUTE ITS REMAINING INTEREST IN US IN A TAX-FREE SPIN-OFF IS SUBJECT TO CONDITIONS AND MAY NOT OCCUR.

ICN has advised us that it is committed to distributing its interest in us to ICN's stockholders on a tax-free basis no later than six months after completion of this offering. The distribution is subject to obtaining a ruling from the Internal Revenue Service that the distribution will qualify as a tax-free spin-off under US tax laws or a favorable opinion from ICN's counsel regarding the federal income tax consequences of the distribution, and compliance with all other applicable laws, including SEC regulations, Delaware General Corporation Law provisions regarding the payment of dividends and compliance with applicable fraudulent conveyance laws. In addition, while ICN has been advised by counsel that stockholder approval is not legally required, it may also seek the approval of the spin-off by its stockholders. ICN has advised us that it filed a ruling request with the Internal Revenue Service in March 2002. Typically, it takes four to six months from the date of submission of a ruling request for the Internal Revenue Service to make a determination. We cannot assure you that it will not take longer for the Internal Revenue Service to rule on ICN's request or that the Internal Revenue Service will issue a favorable ruling. Nor can we assure you that ICN will be able to obtain a favorable opinion from ICN's counsel or that the Internal Revenue Service or a court will agree with the conclusions reached in that opinion. Furthermore, ICN's commitment to effect the distribution does not constitute a binding legal obligation to do so.

Under one of the legal requirements for a tax-free spin-off, ICN would need to own at least 80% of the voting power of our outstanding capital stock. After completion of this offering, ICN will own approximately 82.67% of the voting power of our outstanding capital stock, or approximately 80.07% if the underwriters over-allotment option is exercised in full. However, ICN's interest

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in the voting power of our outstanding capital stock could decrease below 80% through any combination of sales by ICN of our common stock and issuances by us of our common stock for acquisitions, under employee benefit plans or otherwise. We have agreed with ICN that, until the earlier of completion of the spin-off and September 30, 2003, we will not, without the prior written consent of ICN, issue any shares of capital stock if, after giving effect to those issuances, ICN would cease to own at least 80% of the total combined voting power of our outstanding capital stock. We have also agreed with ICN, for the same time period, not to take any action which could cause the spin-off to fail to qualify as a tax-free spin-off. If the spin-off does not occur before these limitations expire on September 30, 2003, ICN may not be able to effect the spin-off on a tax-free basis. You should read "Relationship with ICN -- Tax-Free Spin-Off."

If the spin-off does not occur, the number of shares of our common stock that are publicly held will be smaller than if the spin-off does occur and the market for our shares may, therefore, be less liquid.

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In addition, the marketplace may view the failure to complete the spin-off negatively and the market price of our common stock may be adversely affected.

SHARES RESERVED FOR ISSUANCE UPON THE EXERCISE OF OPTIONS WE WILL GRANT AND ANY SHARES RESERVED FOR ISSUANCE AS A RESULT OF AN ADJUSTMENT TO ICN'S EXISTING STOCK OPTION PLANS IN THE SPIN-OFF WILL RESULT IN ADDITIONAL DILUTION.

At the completion of this offering, we will grant options to acquire 3,075,000 shares of common stock to our employees and directors. The vesting schedule of these options will be 25% each year, commencing on the first anniversary of the grant. In making your decision to invest in this offering, you should consider the impact of these option grants. See "Management -- 2002 Stock Option and Award Plan."

ICN has not determined what adjustments to make to its existing stock option plans at the time of the spin-off. One alternative is to split each existing option into two options, one option being exercisable for our common stock on the basis of the distribution ratio used in the spin-off and the other option being exercisable for ICN common stock. The exercise price of each option would be allocated to each component on an equitable basis. As of December 31, 2001, options to purchase 10,721,000 shares of ICN common stock were outstanding.

FUTURE SALES OR THE PERCEPTION OF FUTURE SALES OF OUR COMMON STOCK COULD CAUSE OUR COMMON STOCK PRICE TO DECLINE.

If a tax-free spin-off does not occur, ICN retains the right to sell shares of our common stock in the public market. Pursuant to a registration rights agreement, ICN has the right to require us to register its shares of our common stock under the Securities Act. Sales of a substantial number of shares of our common stock by ICN in the public market, or the perception that these sales could occur following this offering, could adversely affect the market price of our common stock.

If ICN completes the spin-off, substantially all of our shares distributed by ICN to its stockholders will be eligible for immediate resale in the public market. We are unable to predict whether significant amounts of our common stock will be sold in the open market in anticipation of, or following, the spin-off.

See "Shares eligible for future sale" and "Relationship with ICN -- Tax-Free

Spin-Off."

OUR ABILITY TO EFFECT BUSINESS COMBINATION TRANSACTIONS OR TO ISSUE ADDITIONAL SHARES OF OUR STOCK COULD BE LIMITED.

Under current law, one or more transactions involving the acquisition of a total of 50% or more of the value or voting power of our stock that generally occur prior to, or during the two years after, a spin-off of ICN's interest in us could cause the spin-off to become taxable to ICN. Under our tax sharing agreement with ICN, we would be required to indemnify ICN for this tax liability. Because of concerns regarding the tax-free nature of the spin-off, we may not be able to enter into transactions with third parties that we might otherwise have pursued to acquire businesses or products using our common stock as consideration before and for two years after the spin-off. See "Relationship with ICN -- Affiliation and Distribution Agreement."

A CHANGE OF CONTROL OF ICN COULD ADVERSELY AFFECT OUR BUSINESS AND THE ANTICIPATED SPIN-OFF.

At ICN's annual meeting of stockholders on May 30, 2001, three persons nominated by a group of dissident stockholders calling themselves the ICN Committee to Maximize Shareholder Value were elected to ICN's board of directors. Nine other of ICN's directors remain in office. The terms of office for six of these directors expire at the 2002 annual meeting and the terms of office for three of these directors expire at the 2003 annual meeting. Under ICN's bylaws and an agreement between ICN and SSP-Special Situations Partners Inc., a member of the ICN Committee to Maximize Shareholder Value, only three directors will be elected at the 2002 annual meeting, so that after the 2002 annual meeting, ICN's board will be comprised of nine directors. Franklin Mutual Advisors, LLC and Iridian Asset

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Management LLC filed a preliminary proxy statement with the SEC on April 8, 2002 for ICN's 2002 annual meeting. The preliminary proxy statement states that Franklin and Iridian seek to elect three nominees as directors at this meeting. According to a Schedule 13D filed on April 9, 2002 with the SEC, Franklin and Iridian together beneficially own approximately 9.9% of the common stock of ICN. If the three nominees of this dissident group are elected at ICN's 2002 annual meeting, the ICN board of directors may not continue to operate our business as we currently contemplate or proceed with the spin-off.

In addition, if this dissident slate of directors was successful in being elected to ICN's board of directors prior to the spin-off being completed, a change in control would occur under employment agreements with our executive officers. Under the provisions of these employment agreements, we may be obligated to pay our executive officers approximately \$3 million, based on present compensation, if these executive officers were to terminate their services with us after the change in control. In addition, the vesting of options granted to the executives would be accelerated. See "Management -- Employment Agreements/Change in Control Agreements."

In addition, if ICN experiences a change of control, as defined in the indenture governing the 6 1/2% subordinated notes issued by ICN, ICN is required to make an offer to purchase all of these notes. As between ICN and us, ICN agreed to pay for each note tendered in the offer an amount equal to 100% of the principal amount plus accrued interest. However, we will be responsible for this amount to the extent ICN does not make the payment. In that event, we would have a claim

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against ICN for any payments ICN does not make. The election of the slate of directors nominated by Franklin and Iridian will not in and of itself result in a change of control of ICN under these notes. See "Relationship with ICN -- ICN Notes."

In a press release dated October 20, 2000, ICN said it is committed to considering strategic transactions, including a sale of all or part of ICN. If a sale of all or part of ICN resulted in a change of control of ICN, the successor company may be able to control us to the same extent as ICN. There can be no assurance that a new controlling entity would continue to operate our business as we currently contemplate.

Under current law, one or more transactions involving the acquisition of a total of 50% or more of the value or voting power of ICN's stock that generally occur prior to, or during the two years after, a spin-off of ICN's interest in us could cause the spin-off to become taxable to ICN. This may cause ICN to delay the spin-off or not pursue it at all. In addition, if a spin-off becomes taxable to ICN and ICN is unable to pay the tax, as a member of ICN's consolidated group, we could be held liable for the tax.

A CHANGE OF CONTROL OF US WOULD REQUIRE US TO MAKE AN OFFER TO PURCHASE ALL OF ICN'S OUTSTANDING 6 1/2% SUBORDINATED NOTES AND MAY REQUIRE US TO MAKE SIGNIFICANT PAYMENTS TO OUR EXECUTIVE OFFICERS.

If we experience a change of control, as defined in the indenture governing the 6 1/2% subordinated notes issued by ICN, we are required to make an offer to purchase all of these notes. As between ICN and us, ICN agreed to pay for each note tendered in the offer an amount equal to 100% of the principal amount plus accrued interest. However, we will be responsible for this amount to the extent ICN does not make the payment. In that event, we would have a claim against ICN for any payments ICN does not make. See "Relationship with ICN -- ICN Notes."

In addition, if we experience a change of control, as defined in the employment agreements with our executive officers, we may be obligated to pay up to \$3 million, based upon present compensation, if these executive officers were to terminate their services with us after the change in control. In addition, the vesting of options granted to the executives would be accelerated. See "Management -- Employment Agreements/Change in Control Agreements."

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BECAUSE OF AN ONGOING DISPUTE INVOLVING ICN'S INTEREST IN A YUGOSLAVIAN JOINT VENTURE, OUR RIGHTS TO COMMERCIALIZE TIAZOLE AND ADENAZOLE MAY BE LIMITED.

In connection with our separation from ICN, ICN contributed to us its rights related to Tiazole and Adenazole. These are two of the compounds in our product development pipeline. However, ICN is involved in arbitration with the Republic of Serbia, the Federal Republic of Yugoslavia and the State Health Fund of the Republic of Serbia that could impact those rights. In this arbitration, ICN has taken the position that rights related to Tiazole and Adenazole were previously validly transferred to ICN Yugoslavia, a joint venture between ICN and Yugoslavian entities. Depending on the resolution of this arbitration, we may not have valid rights related to Tiazole and Adenazole. We may be required to obtain licenses from, or grant licenses to, third parties prior to any effort by us to commercialize these products. In addition, it may be difficult for us to license Tiazole and Adenazole to third parties for commercialization if rights related to these compounds remain unclear. See "Business -- Legal Proceedings of ICN."

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As a result of the changing political environment in Yugoslavia, ICN has advised us that it is attempting to regain control of ICN Yugoslavia. There can be no assurance that ICN will be successful in its efforts.

WE MAY BE ADVERSELY AFFECTED BY AN ONGOING LITIGATION INVOLVING ICN AND ITS CHAIRMAN.

ICN and Milan Panic, its chairman, are defendants in a pending civil lawsuit by the SEC that seeks to bar Mr. Panic from acting as an officer or director of any publicly traded company. As a company controlled by ICN, any adverse result in this lawsuit may affect us. For example, we may be subject to the terms of any judgment or settlement and may be liable for any fines or settlement payments. In addition, while we will be indemnified by ICN for any expenses related to this SEC action, we will be required for financial reporting purposes to expense 50% of ICN's expenses related to this action. See "Business -- Legal Proceedings of ICN" for a description of this litigation.

On December 17, 2001, ICN entered a guilty plea in the United States District Court for the Central District of California. This plea was entered pursuant to a plea agreement with the office of the US Attorney in Los Angeles to settle a six year investigation. As part of the guilty plea, ICN agreed to a three-year term of probation. The conditions of the probation require ICN to create a compliance program to ensure no future violations of the federal securities laws and to pre-clear with the FDA any public communication by ICN concerning any matter subject to FDA regulation. The terms of the compliance program include ICN retaining an expert to review its procedures for public communications regarding matters subject to FDA regulation and to develop written procedures for these communications. The compliance program also requires preparation of an annual report by the expert on ICN's compliance with the written procedures and annual certification by ICN management that ICN is complying with the expert's recommendations. ICN has advised us that these conditions of probation also apply to us unless, after the spin-off or other change in control of us occurs, the District Court grants us, upon application, early termination of the probation. The US Attorney may oppose any application we may make and the District Court may not grant early termination of the probation. See "Business -- Legal Proceedings of ICN."

AS LONG AS WE ARE A MEMBER OF ICN'S CONSOLIDATED GROUP FOR FEDERAL INCOME TAX PURPOSES, ICN WILL CONTROL DECISIONS RELATING TO PAYMENT OF TAXES.

For so long as ICN continues to own 80% or more of the combined voting power and value of our outstanding shares of stock, we will be included in ICN's consolidated group for federal income tax purposes. We and ICN have entered into a tax sharing agreement pursuant to which the tax amounts to be paid or received by us with respect to federal consolidated returns of ICN in which we are included generally is determined as though we file separate federal income tax returns. Also, we will calculate our state and local income taxes taking into account ICN's worldwide apportionment

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schedule, where applicable. In addition, ICN will have sole responsibility and authority to respond to and conduct all tax proceedings relating to ICN consolidated or combined income tax returns in which we are included. Moreover, notwithstanding the tax sharing agreement, federal law provides that each member of a consolidated group is jointly and severally liable for the federal income tax liability of each other member of the consolidated group. Thus, to the

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extent ICN or other members of the group fail to make any federal income tax payments required of them by law, including any federal income tax payments due if the spin-off is determined to be taxable to ICN, we could be liable for the shortfall. Similar principles may apply for state income tax purposes in many states.

RISKS RELATED TO THIS OFFERING

OUR STOCK PRICE MAY BE VOLATILE AND YOUR INVESTMENT IN OUR STOCK COULD DECLINE IN VALUE.

Prior to this offering, there has been no public market for our common stock. An active public market for our common stock may not develop or be sustained after the offering. The initial public offering price will be determined by negotiations between the representatives of the underwriters and ICN and may not be indicative of future market prices. You may not be able to resell your common stock at or above the initial offering price due to fluctuation in the market price of the common stock arising from changes in our operating performance or prospects. In addition, the stock market in general has recently experienced extreme volatility often unrelated to the operating performance or prospects of specific companies. In particular, the market prices for securities of biotechnology companies in general have been highly volatile and may continue to be highly volatile in the future. The market price of our common stock may be subject to substantial volatility depending upon many factors. Many of these are beyond our control. These factors include:

- announcements regarding the results of discovery efforts and preclinical and clinical activities by us or our competitors;
- announcements regarding the acquisition of technologies or companies by us or other biotechnology companies;
- changes in our relationship with Schering-Plough or F. Hoffmann-La Roche;
- establishment of additional corporate partnerships or licensing agreements;
- technological innovations or new commercial products developed by us or our competitors;
- changes in our intellectual property portfolio;
- developments or disputes concerning our proprietary rights;
- changes in government regulations affecting us or our industry;
- progress or withdrawal of regulatory approvals with respect to our product candidates;
- issuance of new or changed securities analysts' reports and/or recommendations;
- economic and other external factors;
- additions or departures of key personnel;
- actual or anticipated fluctuations in our quarterly financial and operating results; and
- developments with respect to legal proceedings that we or ICN may be involved in.

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One or more of these factors could significantly harm our business and/or cause a decline in the price of our common stock in the public market.

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ANTI-TAKEOVER PROVISIONS IN OUR CHARTER DOCUMENTS AND UNDER DELAWARE LAW MAY PREVENT ATTEMPTS TO REMOVE OR REPLACE OUR MANAGEMENT.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us or replace or remove our current management. These provisions include:

- Article IV(c) of our certificate of incorporation, which authorizes the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- Article VI(a) of our certificate of incorporation, which limits who may call a special meeting of stockholders; and
- Article I, Section 8 of our bylaws, which establishes advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

THE PURCHASE PRICE PAID BY YOU PER SHARE FOR OUR COMMON STOCK IN THIS OFFERING WILL BE SUBSTANTIALLY GREATER THAN BOOK VALUE PER SHARE OF THE COMMON STOCK.

Based on the offering price of \$10.00 per share, you will suffer immediate dilution of \$13.36 per share. The pro forma net tangible book value for our common stock was approximately \$(3.36) per share as of December 31, 2001, as adjusted to give effect to the issuance of our common stock to ICN, the contribution of assets to us by ICN, a stock split of our common stock on the basis of 1,500,000 for 1.0, our becoming jointly and severally liable for the principal and interest obligations under the 6 1/2% subordinated notes issued by ICN and this offering. See "Dilution."

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Forward-looking information

Some of the statements under the captions "Prospectus summary," "Risk factors," "Use of proceeds," "Management's discussion and analysis of financial condition and results of operations" and "Business" and elsewhere in this prospectus are forward-looking statements. These forward-looking statements include statements about our plans, objectives, expectations and intentions and other statements contained in the prospectus that are not historical facts. When used in this prospectus, the words "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "plans," "seeks," "should," "will" or "would" or the negative of these terms or similar expressions are generally intended to identify forward-looking statements.

Forward-looking statements necessarily involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements due to a number of factors, including those set forth

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above under "Risk factors" and elsewhere in this prospectus. The factors set forth above in the "Risk factors" section and other cautionary statements made in this prospectus should be read and understood as being applicable to all related forward-looking statements wherever they appear in this prospectus. The forward-looking statements contained in this prospectus represent our judgment as of the date of this prospectus. We caution readers not to place undue reliance on these statements. Neither the Private Securities Litigation Reform Act of 1995 nor Section 27A of the Securities Act of 1933 provide any protection for statements made in this prospectus.

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Use of proceeds

We will not receive any proceeds from the sale of the common stock in this offering.

Dividend policy

We currently intend to retain our future earnings, if any, to support the growth and development of our business. We do not anticipate paying dividends for the foreseeable future. Our board of directors will make all future determinations relating to our dividend policy. This determination will depend on a number of other factors, including future earnings, capital requirements, financial condition and future prospects and other factors our board of directors may deem relevant.

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Capitalization

The following table shows our capitalization as of December 31, 2001 on an actual basis and pro forma basis to reflect the completion of this offering.

	AS OF DECEMBER 31, 2001	
	----- ACTUAL	PRO FORMA -----
	(in thousands)	
6 1/2% subordinated notes due 2008(1).....	\$--	\$525,000
Stockholder's equity (deficit):		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding.....	--	--
Common stock, \$0.01 par value; 400,000,000 shares authorized; 150,000,000 issued and outstanding(2) (3)...	1,500	1,500
Advances due from ICN(4).....	(188,017)	--
Receivable from ICN(1).....	--	(525,000)

Retained earnings.....	207,736	19,719

Total stockholder's equity (deficit).....	21,219	(503,781)

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Total capitalization.....	----- \$21,219 =====	----- \$21,219 =====
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- (1) Upon the completion of this offering, we will be jointly and severally liable for the principal and interest obligations under the 6 1/2% subordinated notes issued by ICN. As between us and ICN, ICN agreed to make all interest and principal payments on these notes and to make any payments due upon a change of control of ICN or us. We can only amend this agreement, in a manner adverse to us, with the approval of holders of a majority of our outstanding shares of common stock, excluding shares held by ICN. We will record the obligation under the 6 1/2% subordinated notes as a receivable from ICN within stockholder's equity. This receivable from ICN will remain as a component of our equity to the extent that an obligation for principal and interest for the notes remains outstanding or until ICN can no longer make principal and interest payments as discussed above. See "Relationship with ICN -- ICN Notes."
- (2) The financial statements have been retroactively restated to effect a stock split of our common stock of 1,500,000 for 1.0.
- (3) The number of shares of our common stock shown above as outstanding does not include the following:
 - 22,500,000 shares reserved for issuance under our 2002 Stock Option Plan, including 3,075,000 shares issuable upon the exercise of options to be granted at the time of this offering with an exercise price equal to the offering price;
 - 22,988,901 shares that will be reserved for issuance, in the event the spin-off is completed, upon conversion of the notes issued by ICN, assuming a distribution ratio of approximately 1.50 shares of our common stock for each share of ICN common stock in the spin-off. This distribution ratio is based upon 82,667,075 outstanding shares of ICN common stock as of March 21, 2002 and assumes that ICN sells 26,000,000 shares of common stock in this offering and that we do not issue any additional shares after the completion of this offering, including in connection with the underwriters' over-allotment option. In the event the spin-off is completed and holders of the notes convert those notes into shares of our common stock, we will treat the conversion and issuance of those shares as an equity transaction for accounting purposes; and
 - any shares that may be reserved for issuance, in the event the spin-off is completed, as a result of an adjustment to ICN's existing stock option plans to account for the spin-off. As of December 31, 2001, there were outstanding options to purchase 10,721,000 shares of ICN common stock. See "Relationship with ICN -- Option Grants to ICN Employees."
- (4) Advances due from ICN prior to completion of this offering represent our historical revenues less amounts ICN provided to us to fund our operations. We will not be repaid any of the advances due to us from ICN outstanding immediately prior to this offering. Accordingly, these advances will reduce our retained earnings upon completion of this offering.

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Dilution

The historical as adjusted net tangible book value of our common stock was approximately \$21.2 million, or approximately \$0.14 per share on December 31, 2001, giving effect to the issuance of our common stock to ICN, the contribution of assets to us by ICN, a stock split of our common stock on the basis of 1,500,000 for 1.0 and this offering. Historical as adjusted net tangible book value per share represents the amount of our total tangible assets less total liabilities divided by the total number of shares of common stock outstanding. The pro forma net tangible book value of our common stock was approximately \$(503.8) million, or approximately \$(3.36) per share on December 31, 2001, and includes the historical as adjusted net tangible book value and gives effect to our becoming jointly and severally liable for the principal and interest obligations under the 6 1/2% subordinated notes issued by ICN upon completion of this offering.

If you invest in our common stock, your interest will be diluted immediately to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering. Based on the offering price of \$10.00 per share, new investors would experience an immediate dilution of \$13.36 per share.

The following table summarizes, on an as adjusted basis as of December 31, 2001, the differences between the total consideration paid and the price per share paid by ICN for the shares of common stock purchased by ICN from us and by the new investors for the shares of common stock purchased from ICN in this offering. We have not deducted estimated underwriting discounts and commissions and estimated offering expenses in our calculations.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
ICN.....	124,000,000	82.67%	\$100	--%	\$--
New investors.....	26,000,000	17.33	260,000,000	100	10.00
Total.....	150,000,000	100%	\$260,000,100	100%	

The foregoing discussion and tables assume no exercise of any outstanding stock options, no exercise by the underwriters of their over-allotment option, no issuance of our shares issuable upon conversion of the notes issued by ICN and no exercise by participants in ICN's stock option plans of options to acquire shares of our common stock which may be granted in connection with the spin-off.

Selected financial data

The following selected financial data should be read in conjunction with the financial statements and the notes to the statements and "Management's discussion and analysis of financial condition and results of operations" included elsewhere in this prospectus.

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We derived the statement of income data for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2000 and 2001 from our audited financial statements, which are included elsewhere in this prospectus. We derived the statement of income data for the years ended December 31, 1997 and 1998 and the balance sheet data as of December 31, 1997, 1998 and 1999 from our audited financial statements not included in this prospectus. Basic and diluted earnings per share has been calculated using the 150,000,000 shares that will be outstanding at the completion of this offering. Historical results are not necessarily indicative of the results to be expected in the future.

STATEMENT OF INCOME DATA	YEAR ENDED DECEMBER 31,			
	1997	1998	1999	2000
	(in thousands, except per share)			
Revenues.....	\$3,223	\$36,830	\$109,592	\$154,8
Costs and expenses:				
Research and development.....	7,011	9,530	5,523	13,0
General and administrative.....	9,676	7,392	5,608	11,1
Total costs and expenses.....	16,687	16,922	11,131	24,1
Income (loss) before income taxes.....	(13,464)	19,908	98,461	130,7
Interest expense.....	--	--	--	--
Income before income taxes (loss).....	(13,464)	19,908	98,461	130,7
Provision (benefit) from income taxes.....	(4,847)	7,167	35,446	48,7
Net income (loss).....	\$(8,617)	\$12,741	\$63,015	\$81,9
Basic and diluted earnings (loss) per share.....	\$(.06)	\$.08	\$.42	\$..
Shares used in computation.....	150,000	150,000	150,000	150,0

BALANCE SHEET DATA	AS OF DECEMBER 31,				
	1997	1998	1999	2000	2001
	(in thousands)				
Working capital (deficit).....	\$(3,162)	\$(626)	\$(1,112)	\$527	\$10,8
Total assets.....	7,961	2,854	1,048	9,853	26,6
Current liabilities.....	4,962	626	1,112	3,073	5,4
Total liabilities.....	17,904	4,949	1,112	3,073	5,4
Total equity (deficit).....	(9,943)	(2,095)	(64)	6,780	21,2

(1) Pro forma balance sheet data gives effect upon completion of this offering to our joint and several obligation with ICN for principal and interest under the 6 1/2% subordinated notes due 2008 issued by ICN. As between us and ICN, ICN agreed to make all interest and principal payments on these

notes and to make any payments due upon a change of control of ICN or us. We can only amend this agreement, in a manner adverse to us, with the approval of holders of a majority of our outstanding shares of common stock, excluding shares held by ICN. We will record the obligation under the 6 1/2% subordinated notes as a receivable from ICN within stockholder's equity. This receivable from ICN will remain as a component of our equity to the extent that an obligation for principal and interest for these notes remains outstanding or until ICN can no longer make principal and interest payments as discussed above. See "Relationship with ICN -- ICN Notes."

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Management's discussion and analysis of financial condition and results of operations

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the notes to those statements included elsewhere in this prospectus. This discussion may contain forward-looking statements that involve risks and uncertainties. As a result of many factors such as those set forth under "Risk factors" and elsewhere in this prospectus, our actual results may differ materially from those anticipated in these forward-looking statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in conformity with generally accepted accounting principles. The preparation of these statements require our management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Our actual results could differ from those estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our financial statements:

- We earn royalty revenue at the time the products subject to the royalty are sold by a third party. Additionally, we recognize as revenue up-front non-refundable fees associated with royalty and license agreements when all performance obligations under the agreements are completed. Milestone payments received, if any, related to scientific achievement are recognized as revenue when the milestone is accomplished by the third party.
- Research and development costs are expensed as incurred.
- Our management performs an ongoing credit evaluation of our customers' financial condition. We generally do not require collateral to secure accounts receivable. Our exposure to credit risk associated with non-payment is affected principally by conditions or occurrences affecting our primary customer, Schering-Plough. To date, we have not experienced losses relating to accounts receivable from Schering-Plough. See the discussion below in "-- Results of Operations" regarding Scher