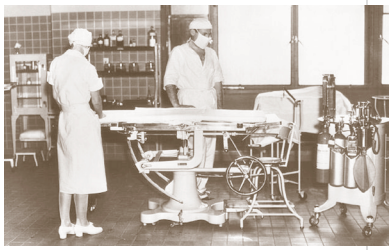
THE **MEDICINES** COMPANY



ANNUAL REPORT 2000

THE **MEDICINES** COMPANY

Company Profile

Our strategy is to build a biopharmaceutical business focused on selected franchises such as acute hospital care where we can deliver differentiated products with economic advantages to hospital decision makers. We seek to acquire products in late stages of clinical development and invest in further product development and commercialization. We aim to minimize our fixed costs by partnering with highly proficient contract organizations and seek to maximize value creation through strategic brand management led by our experienced in-house project teams.

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THE MEDICINES COMPANY'S

MILESTONES 2000

August 2000:

We completed our initial public offering (IPO) in which we raised $101.4 million by selling 6.9 million shares of Common Stock, including the underwriters' over-allotment option, at $16.00 per share.

September 2000:

We initiated with NIH a double-blind randomized placebo-controlled Phase 2 trial of our second product, CTV-05, as an adjunct to standard antibiotic treatment of bacterial vaginosis (BV). CTV-05 is a proprietary biotherapeutic agent with a potentially broad range of applications in the treatment of gynecological and reproductive infections.

November 2000:

We initiated the REPLACE trial program—a large randomized Phase 3b trial comparing Angiomax (bivalirudin), our lead product, to heparin in patients undergoing percutaneous coronary intervention including intravenous GP IIb/IIIa inhibitors. We have since completed enrollment of the first part of the trial and will soon begin the second part.

We began a Phase 2 trial of Angiomax in patients undergoing coronary artery bypass graft surgery (CABG) without the use of a bypass pump.

December 2000:

We gained marketing approval from the U.S. Food and Drug Administration, or FDA, for Angiomax for use as an anticoagulant in combination with aspirin in patients with unstable angina undergoing coronary balloon angioplasty.

We signed a commercialization agreement with Innovex Inc. to provide us with a sales force, sales territory management systems and operational support for the launch of Angiomax.

January 2001:

We began selling Angiomax in cardiac catheterization laboratories in the United States targeting approximately 700 hospitals where about 95% of the angioplasty procedures are performed.

Dear Fellow Shareholders:

A Strategic Acquired Product Commercialized

During 2000 we transformed The Medicines Company from a private company focused on product development to a public commercial enterprise. In August, we raised $101.4 million by selling 6.9 million shares of Common Stock, including the underwriters' over-allotment option, at $16.00 per share. In December 2000 we gained marketing approval for Angiomax (bivalirudin), our lead product, for use in patients with unstable angina undergoing coronary angioplasty.

Having achieved these significant milestones, we recruited experienced and dynamic commercial leadership and assembled a quality 65-person field sales organization dedicated solely to selling Angiomax in the United States. With extensive direct hospital selling and national account experience, the marketing and sales team will target both hospital decision-makers and group purchasing organizations.

The features and benefits of Angiomax present our customers with an exciting medical and economic opportunity. We believe that this opportunity will translate into better care for patients and more efficient management of cardiac catheterization laboratory businesses.

The FDA's approval of Angiomax was based on data from a broad group of patients undergoing angioplasty with new onset severe angina, accelerating angina, angina at rest, including both patients with pain within the month prior to study entry and those with recurrent angina developing within two weeks after a heart attack.

Angiomax treatment is associated with fewer ischemic and bleeding complications than heparin providing the basis for better patient care and improved hospital economics. Given the clinical features and benefits of Angiomax and its economic advantages, we believe that it has the potential to replace heparin as the foundation anticoagulant in angioplasty.

To support the commercialization of Angiomax, we have initiated educational programs including symposia at major medical conferences, a far-reaching speaker training program for physicians, nurses and pharmacists and a series of peer-reviewed and sponsored publications designed to highlight the medical and economic value of Angiomax. We are grateful for the support of some of the world's leading academic institutions in helping to implement these programs.

We began the REPLACE clinical trial program as an initiative to enable professionals in the cardiac catheterization laboratory to learn how to integrate Angiomax into their own practices. In addition, this program will generate additional

clinical information for Angiomax used with and without GP IIb/IIIa platelet inhibitors and stents. From its initiation in late 2000, REPLACE has progressed very quickly with enrollment of part one completed in February 2001. We expect to begin part two in the near future.

Beyond angioplasty we are also developing Angiomax for use in the treatment of arterial thrombosis. To date clinical investigators have administered Angiomax to over 16,000 patients with a series of trials underway. The 17,000 patient Phase 3 trial in heart attack patients called HERO-2 is nearing completion. We have a Phase 3 program studying Angiomax in angioplasty patients who experience allergic reactions to heparin. In November 2000 we began a Phase 2 program studying Angiomax in patients undergoing CABG without the use of a bypass pump. We have plans to commence a Phase 3 program to evaluate the use of Angiomax in patients with unstable angina.

Our development objective is to expand the use of Angiomax so that it can become the leading replacement for heparin in acute hospital care—a substantial commercial opportunity. Heparin is used to treat at least five million hospitalized patients per year in the United States. We believe the medical opportunity is compelling; patients who are treated with heparin are at risk for excessive bleeding, thrombosis and allergic reactions. In addition, the dosing and therapeutic response to heparin are difficult to predict. Although heparin was discovered in 1906 and has been on the market for more than 50 years, the manufacturing method of this animal derived substance has changed little during that time and batch-to-batch variability in biological activity is typical. We, and many experts in the field, believe that it is time to move intravenous anti-thrombin treatment into the 21st century.

We plan for Angiomax to become the cornerstone of the hospital care franchise we plan to build. We intend to build this franchise through acquisitions and commercialization of additional hospital products that meet our investment criteria while utilizing our core strengths in hospital selling and product development.

In January 2000 we announced the acquisition of CTV-05 a strain of *lactobacillus* found in humans with a potential range of applications in the areas of urogenital and reproductive health. With the National Institutes of Health, we began a large, randomized clinical trial of CTV-05 as an adjunct to standard antibiotic treatment of bacterial vaginosis (BV).

The Medicines Company enters 2001 as a commercial enterprise providing an exciting new standard of care for patients undergoing angioplasty. We are committed to making Angiomax a market leader in angioplasty, expanding the uses of Angiomax in hospital care and building a valuable pharmaceutical business.

Sincerely,

Clive Meanwell, M.D., Ph.D.
President, Chief Executive Officer and Director

Angiomax
Commercialization

Douglas Losordo, M.D., St. Elizabeth's Hospital and Carrie Beal, R.N., Regional Account Specialist, The Medicines Company

Angioplasty Market

There are approximately 686,000 inpatient coronary angioplasty procedures a year in the United States. Coronary angioplasty is a procedure used to restore normal blood flow in an obstructed artery in the heart. Heparin is used in the vast majority of angioplasty patients in the United States and has long been considered the foundation anticoagulant for coronary angioplasty, although it is associated with significant clinical limitations.

Heparin Clinical Limitations

Because it is an indirect thrombin inhibitor, heparin is ineffective on thrombin when clots have formed. Patients who receive heparin have a high incidence of bleeding. The anticoagulant effect of a given dose of heparin is unpredictable and therefore requires close monitoring. Heparin can cause dangerous immunological reactions and can be problematic in patients with impaired kidney or liver function.

Angiomax Potential Advantages

The Clinical data has demonstrated the effectiveness and safety of Angiomax compared to heparin. Angiomax, as a direct thrombin inhibitor, is equally effective on thrombin in the clot as well as on thrombin circulating in the blood. As a reversible thrombin inhibitor, Angiomax has demonstrated consistent clinically meaningful reductions in bleeding and ischemic complications as compared to heparin. Angiomax is a synthetic peptide that provides predictable levels of anticoagulation in all patients, including those with impaired liver or kidney function.

FDA Approval

In December 2000, we received FDA marketing approval for Angiomax for use as an anticoagulant in combination with aspirin in patients with unstable angina undergoing coronary balloon angioplasty. The approval of Angiomax was based primarily on data from double-blinded clinical trials in 4,312 patients undergoing coronary angioplasty for new onset angina, accelerating episodes of angina or angina at rest. In clinical trials in angioplasty compared

"We believe Angiomax will become the leading replacement for heparin in acute cardiovascular care."

Paul Puccioni
Senior Director, Commercial and Clinical Development

"With our years of experience in hospital marketing and sales, we are well positioned to launch Angiomax in the US anticoagulant market."

Thomas Quinn
Vice President, Sales and Marketing

to heparin, Angiomax showed a 22% reduction in the risk of death, heart attack or the need for emergency coronary procedures. In addition, Angiomax reduced the likelihood of major bleeding by 62%. We began selling Angiomax in the United States in January 2001.

Sales Force

We have a 65 person sales effort with years of direct selling and national account experience dedicated solely to selling Angiomax. Our sales force, with an average of four and a half years of selling experience, is targeting approximately 700 hospitals. These targeted hospitals perform the vast majority of angioplasty procedures in the United States. We have signed a commercialization agreement with Innovex Inc. to provide us with 52 members of our sales effort dedicated exclusively to selling Angiomax. The Innovex agreement also provides us with sales territory management systems and operational support in the field. We are working actively with a number of major group purchasing organizations to establish contracts.

REPLACE

To support the launch of Angiomax in angioplasty, we initiated the REPLACE clinical trial program. This two-part trial will examine the use of Angiomax versus heparin with and without a GP IIb/IIIa platelet inhibitor. In February 2001 we completed enrollment in part one of the REPLACE program and expect to begin part two of the trial in the near future.

Medical Education

To support the launch we initiated a medical education program including a series of publications and educational symposia. In addition to the publications to date, there are numerous manuscripts regarding Angiomax either in press or in scientific review. To educate the physicians, nurses and pharmacists, we have an Angiomax speaker training program that will develop more than 600 physician, pharmacist and nurse speakers to facilitate the appropriate cost-effective use of Angiomax.

With our experienced sales and marketing team and the product attributes of Angiomax, we believe that Angiomax will become the foundation anticoagulant replacing heparin in angioplasty patients.

Economics of Angiomax

"We believe Angiomax will enable hospitals to provide better patient care while improving the economics of the hospital."

Stephanie Plent, M.D.
Senior Director, Medical Policy and Economics

Angioplasty Costs

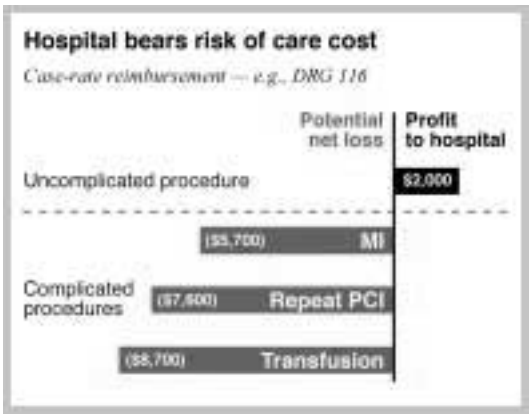
Coronary angioplasty has been performed for approximately twenty years. Over time, the procedure has improved with the introduction of new drugs, including fibrinolytics and platelet inhibitors and new devices, such as stents. As these new items are added to the procedure, the associated cost has increased significantly.

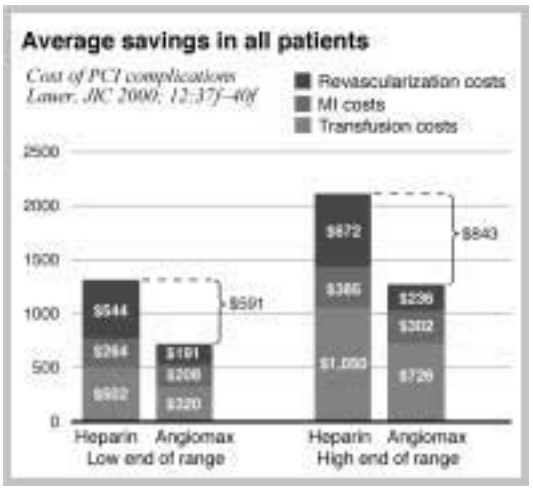
Angioplasty Reimbursement

The majority of hospitals are reimbursed according to contract rates that pay a fixed amount for each coronary angioplasty regardless of the costs incurred by the hospital. This is true for all Medicare cases (the Diagnosis Related Group prospective payment system) and most commercial insurance arrangements. In this payment environment, hospitals are at risk of losing money when clinical complications occur and costs exceed the fixed reimbursement. In 1999 the average hospital reimbursement for an uncomplicated angioplasty procedure with a stent was approximately $11,500. The average cost to a hospital of performing an uncomplicated angioplasty procedure is approximately $9,500. As a result, an uncomplicated angioplasty procedure may result in an average $2,000 per case profit for the hospital.

Cost of Clinical Complications

When complications arise, the hospital could lose money. On average a hospital incurs an additional $7,700 cost to treat a patient who has a heart attack, an additional $9,600 cost for a patient undergoing a repeat coronary angioplasty, an additional $20,800 cost for a patient requiring CABG and an additional $10,700 cost for managing a patient who requires a blood transfusion. While the hospital will receive greater reimbursement for a CABG, there will be no additional reimbursement for a patient who experiences a heart attack, repeat angioplasty or blood transfusion as a complication. Therefore the associated





costs may result in an average net loss for the hospital of $5,700 for a heart attack, $7,600 for a repeat coronary angioplasty procedure and $8,700 for a blood transfusion. Several studies have shown the community transfusion rate for angioplasty cases is approximately 5% making bleeding the most frequent and costly complication of angioplasty.

Economics of Heparin

Even as techniques, drug treatments and devices have improved, heparin has remained the foundation anticoagulant in angioplasty. Heparin, a generic drug with numerous manufacturers, has a low acquisition cost. However, due to its associated adverse events and bleeding complications, using heparin can result in significant hospital costs.

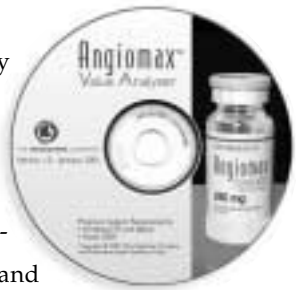
Angiomax Economic Advantage

Angiomax has been shown in clinical trials to decrease both ischemic and bleeding complications. Fewer complications during coronary angioplasty procedures translate into cost avoidance for the hospital and therefore overall cost savings.

If published complications costs were applied to the improvement in complication rates seen with Angiomax in the pivotal trials, Angiomax use would result in reduction of overall hospital costs. The reduction in costs would range from $591 to $843 per patient.

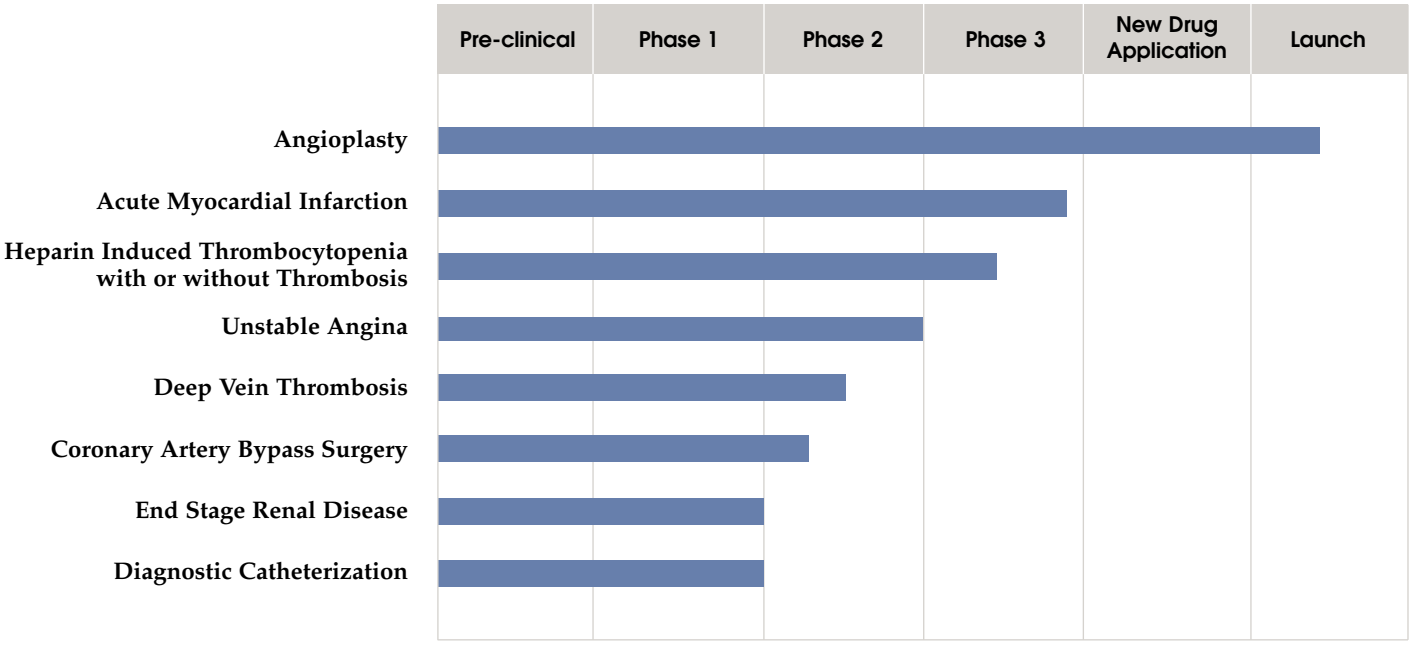
Helping Hospitals Understand Value

To enable hospitals to evaluate the potential economic impact of using Angiomax compared to heparin during angioplasty, we have created the Angiomax Value Analyzer (AVA). The AVA, a software analytical tool, helps hospitals analyze the cost of ischemic and bleeding complications. The AVA allows a hospital to customize the analysis to its particular practice pattern, complication rates and cost experience.



The AVA tool is one of many tools by which our sales and national account team can work with our customers to provide solutions to their clinical and economic problems and help them make valuable improvements in the hospital care of patients.

Developing Additional Applications for Angiomax



Angiomax Vision

We believe that Angiomax will become the leading replacement for heparin in hospital care. In the United States, heparin is the most widely used acute care anticoagulant and is used to treat approximately five million hospitalized patients per year. We have development programs designed to expand the applications of Angiomax for use in the treatment of ischemic heart disease.

Angiomax Development Strategy

Our objectives in developing Angiomax are to establish the basis of clinical and economic value for Angiomax in the marketplace and to obtain regulatory approval in each of three settings in the hospital: in the cardiac catheterization laboratory, in the emergency room and in the operating room. Angiomax has consistently demonstrated reduced ischemia and bleeding when compared to heparin. Given this profile we believe that Angiomax provides a broad clinical and commercial opportunity in the hospital treatment of patients with ischemic heart disease.

Cardiac Catheterization Laboratory

Angiomax development programs to date have provided clinical experience in the use of Angiomax in over 12,000 angioplasty patients. This includes clinical data from the pivotal Phase 3 trials in angioplasty that demonstrated a reduction

Christina Correla
Senior Director, Product Development

Sonia Barton Loar
Pharm. D., Senior Director, Regulatory Affairs

in ischemic complications and bleeding complications for Angiomax patients in comparison to heparin patients. The Phase 2 CACHET trials studying Angiomax plus provisional ReoPro (abciximab) versus heparin with ReoPro in angioplasty patients showed a significant reduction in ischemic and bleeding complications for the Angiomax patients.

In November 2000 we initiated the REPLACE program, a Phase 3b clinical trial program in angioplasty. This two-part trial will examine the use of Angiomax with and without a GP IIb/IIIa platelet inhibitor. In February 2001 we completed enrollment in part one of the REPLACE program and expect to begin the second part of the trial in the near future.

We have an ongoing Phase 3 trial program studying the use of Angiomax for the treatment of patients undergoing angioplasty who have in the past experienced reduced platelet count and clotting due to an allergic reaction to heparin (HIT/HITTS).

Emergency Room

In the United States there are approximately 870,000 heart attack and 950,000 unstable angina patients who were treated in a hospital in 1997.

Angiomax has been studied in three Phase 2 trials in heart attack patients treated with aspirin and fibrinolytics. In these studies the use of Angiomax resulted in normal blood flow in 34% more patients than heparin and resulted in substantially less bleeding. In Phase 2 studies in unstable angina patients, Angiomax showed a reduction in death and heart attack rates in comparison to placebo doses of anticoagulant.

HERO-2, our Phase 3 trial program studying the use of Angiomax for the treatment of patients who have suffered a heart attack, is nearing completion. Heart attack patients in this study are randomized to Angiomax or heparin prior to treatment with a fibrinolytic. At present we have recruited over 16,000 of the planned 17,000 patients into the HERO-2 trial. We are also actively planning for a Phase 3 program in patients with acute coronary syndromes.

Operating Room

Heparin is used extensively in the operating room in cardiac surgery, vascular surgery and orthopedic surgery and a variety of other operations. Angiomax has been studied as an anticoagulant in a Phase 1 program in coronary artery bypass graft surgery and a Phase 2 program in patients undergoing orthopedic surgical procedures.

In November 2000 we initiated a 100 patient Phase 2 trial of Angiomax in patients undergoing coronary artery bypass graft surgery without the use of a bypass pump.

Strategy for Growth

Strategic Objectives

We plan to continue to acquire, develop and commercialize late-stage product candidates or approved products that make a clinical difference in critical care medicine. Our strategy is to acquire late-stage development product candidates with an anticipated time to market of four years or less and existing clinical data which provides reasonable evidence of safety and efficacy. In addition we aim to acquire approved products that can be marketed by our commercial organization.

Andrew Sternlicht, M.D.
Senior Director, Business Development
Board Certified Anesthesiologist and
Critical Care Specialist

We believe the changes underway in the pharmaceutical and biotechnology industries will continue to result in the availability of high quality products or product candidates with attractive investment characteristics. We continually assess potential product acquisitions to determine whether they meet the investment requirements we have established.

Hospital Care Franchise

With our team's operational experience in hospital marketing and sales, we plan to build a hospital care franchise in which Angiomax will be the cornerstone product. To expand the applications of Angiomax in the hospital, we have clinical trial programs examining the use of Angiomax in angioplasty patients, in heart attack patients, in patients undergoing angioplasty who experience reduced platelet count and clotting due to an allergic reaction to heparin and in patients undergoing coronary artery bypass graft surgery without the use of a bypass pump. In addition, we are actively considering potential product candidates that can be effectively sold by our hospital field force.

Specialty Anti-Infective Franchise

We are also focused on specialty anti-infectives. We are developing a product, CTV-05, a proprietary biotherapeutic agent with a broad range of potential applications in the treatment of gynecological and reproductive infections. CTV-05 is currently being studied in a double-blind, placebo-controlled Phase 2 trial supported by NIH, examining the safety and effectiveness of the compound as an adjunct to antibiotic therapy in the treatment of bacterial vaginosis.

Selected Consolidated Financial Data

In the table below, we provide you with our selected consolidated financial data. We have prepared this information using our audited consolidated financial statements for the period July 31, 1996 (date of inception) to December 31, 1996 and for the years ended December 31, 1997, 1998, 1999 and 2000. The pro forma net loss per share data reflects the conversion of our convertible notes, and accrued interest, and the conversion of our outstanding convertible preferred stock, and accrued dividends, into common stock upon the closing of our initial public offering in August 2000. The pro forma net loss per share data does not include the effect of any options or warrants outstanding. For further discussion of earnings per share, please see note 8 to the consolidated financial statements.

	Period from Inception (July 31, 1996) Through December 31, 1996	Year Ended December 31, 1997	1998	1999	**2000**
		In thousands, except share and per share data			
Statements of Operations Data					
Operating expenses					
Research and development	$ 827	$ 16,044	$ 24,005	$ 30,345	**$ 39,572**
Selling, general and administrative	702	2,421	6,248	5,008	**15,034**
Total operating expenses	1,529	18,465	30,253	35,353	**54,606**
Loss from operations	(1,529)	(18,465)	(30,253)	(35,353)	**(54,606)**
Interest income (expense), net	62	659	1,302	640	**(16,686)**
Net loss	(1,467)	(17,806)	(28,951)	(34,713)	**(71,292)**
Dividends and accretion to redemption value of redeemable convertible preferred stock	(118)	(2,018)	(3,959)	(5,893)	**(30,343)**
Net loss attributable to common stockholders	$ (1,585)	$ (19,824)	$ (32,910)	$ (40,606)	**$ (101,635)**
Net loss attributable to common stockholders per common share, basic and diluted	$ (2.85)	$ (4.06)	$ (6.03)	$ (80.08)	**$ (8.43)**
Shares used in computing net loss attributable to common stockholders per common share, basic and diluted	557,178	4,887,230	5,454,653	507,065	**12,059,275**
Unaudited pro forma net loss attributable to common stockholders per common share, basic and diluted				$ (1.94)	**$ (2.10)**
Shares used in computing unaudited pro forma net loss attributable to common stockholders per common share, basic and diluted				17,799,876	**24,719,075**

	As of December 31, 1996	1997	1998	1999	**2000**
			In thousands		
Balance Sheet Data					
Cash, cash equivalents, marketable securities and accrued interest receivable	$ 3,421	$ 25,416	$ 29,086	$ 7,238	**$ 80,718**
Working capital (deficit)	3,174	18,779	24,570	(4,103)	**68,023**
Total assets	3,473	25,595	29,831	7,991	**84,363**
Convertible notes	—	—	—	5,776	**—**
Redeemable convertible preferred stock	4,793	40,306	79,384	85,277	**—**
Deficit accumulated during the development stage	(1,585)	(21,409)	(54,319)	(94,925)	**(196,560)**
Total stockholders' (deficit) equity	(1,582)	(21,387)	(54,266)	(94,558)	**69,239**

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We acquire, develop and commercialize biopharmaceutical products that are in late stages of development or have been approved for marketing. In December 2000, we received marketing approval from the FDA for Angiomax, our lead product, for use as an anticoagulant in combination with aspirin in patients with unstable angina undergoing coronary balloon angioplasty. Coronary angioplasty is a procedure used to restore normal blood flow in an obstructed artery in the heart. We began selling Angiomax in the United States in January 2001. In August and September 2000, we consummated our initial public offering resulting in $101.4 million in net proceeds.

Since our inception, we have incurred significant losses and, as of December 31, 2000, had a deficit accumulated during the development stage of $196.6 million. Most of our expenditures to date have been for research and development activities, selling, general and administrative expenses and interest expense. Research and development expenses represent costs incurred for product acquisition, clinical trials, activities relating to regulatory filings and manufacturing development efforts. We generally outsource our clinical and manufacturing development activities to independent organizations to maximize efficiency and minimize our internal overhead. We expense our research and development costs as they are incurred. Selling, general and administrative expenses consist primarily of salaries and related expenses, general corporate activities and costs associated with initial product marketing activities. Interest expense consists of costs associated with convertible notes which were issued to fund our business activities.

We expect to continue to incur operating losses for the foreseeable future as a result of research and development activities attributable to new and existing products and costs associated with the commercialization and launch of our products. In 2001, we expect increased cash outlays for research and development costs associated with our ongoing clinical trials and manufacturing development activities. We also expect increased outlays during 2001 for sales, general and administrative costs related to the commercial launch in the United States of Angiomax. We will need to generate significant revenues to achieve and maintain profitability. Through December 31, 2000, we have had no revenues from any product sales, and we have not achieved profitability on a quarterly or annual basis.

In March 1997, we acquired exclusive worldwide commercial rights from Biogen, Inc. to the technology, patents, trademarks, inventories, know-how and all regulatory and clinical information related to Angiomax. Under the Biogen license, we paid $2.0 million upon execution of the license agreement and are obligated to pay up to an additional $8.0 million upon reaching certain Angiomax sales milestones, including the first sale of Angiomax for certain indications. In addition, we will pay royalties on future sales of Angiomax and on any sublicense royalties earned.

In August 1999, we acquired exclusive worldwide rights from GyneLogix, Inc. to the patents and know-how related to the biotherapeutic agent CTV-05. Under the GyneLogix license, we have paid $400,000 and are obligated to pay up to an additional $100,000 upon reaching certain development and regulatory milestones and to fund agreed-upon operational costs of GyneLogix related to the development of CTV-05 on a monthly basis subject to a limitation of $50,000 per month. In addition, we will pay royalties on future sales of CTV-05 and on any sublicense royalties earned.

In July 1998, we acquired from Immunotech S.A., a wholly-owned subsidiary of Beckman Coulter, Inc., exclusive worldwide rights to IS-159, which is under clinical investigation for the treatment of acute migraine headache. Under the Immunotech license, we paid $1.0 million upon execution of the license agreement and are obligated to pay up to an additional $4.5 million upon reaching certain development and regulatory milestones. In addition, we will pay royalties on future sales of IS-159 and on any sublicense royalties earned. We are seeking a collaborator to develop IS-159 and do not intend to initiate further studies of IS-159 until we enter into a collaborative agreement.

During the year ended December 31, 2000, we recorded deferred stock compensation on the grant of stock options of approximately $17.3 million, representing the difference between the exercise price of such options and the fair market value of our common stock at the date of grant of such options. The exercise prices of these options were below the estimated fair market value of our common stock as of the date of grant based on the estimated initial public offering price of our common stock.

We amortize deferred stock compensation over the respective vesting periods of the individual stock options. We recorded amortization expense for deferred compensation of approximately $3.7 million for the year ended December 31, 2000. We expect to record an amortization expense for deferred compensation as follows, reduced, where applicable, for employee terminations: approximately $4.2 million for 2001, approximately $3.9 million for 2002, approximately $3.9 million for 2003 and approximately $1.4 million for 2004.

In May 2000, we sold shares of series IV convertible preferred stock. These shares contained a beneficial conversion feature based on the estimated fair market value as of the date of such sale of the common stock into which such shares were convertible. The total amount of such beneficial conversion

was approximately $25.5 million and has been reflected as a dividend in the period of issuance, the second quarter of 2000. In the year ended December 31, 2000, we also recorded approximately $19.4 million as interest expense, including the discount on our convertible notes issued in October 1999 and March 2000.

Through December 31, 2000, we had not generated taxable income. At December 31, 2000, net operating losses available to offset future taxable income for federal income tax purposes were approximately $122.2 million. If not utilized, federal net operating loss carryforwards will expire at various dates beginning in 2011 and ending 2020. We have not recognized the potential tax benefit of our net operating losses in our statements of operations. The future utilization of our net operating loss carryforwards may be limited pursuant to regulations promulgated under the Internal Revenue Code of 1986, as amended.

Results of Operations

Years Ended December 31, 2000 and 1999

Research and Development Expenses. Research and development expenses increased 30% from $30.3 million in 1999 to $39.6 million in 2000. The increase of $9.3 million was primarily due to the increased enrollment rate of our Phase 3 clinical trial in AMI, called HERO-2 during 2000, initiation in 2000 of a Phase 3b trial in angioplasty called REPLACE and by the recognition of $12.2 million of research and development costs in connection with the completion of UCB Bioproduct's manufacture of Angiomax bulk drug substance prior to FDA approval. The increase in costs was partly offset by reduced development expenses reflecting our termination of the semilog manufacturing development program with Lonza AG in the fourth quarter of 1999 and a reduction in development activity for IS-159 in 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 200% from $5.0 million in 1999 to $15.0 million in 2000. The increase of $10.0 million was primarily due to an increase in marketing and selling expenses and corporate infrastructure costs arising from an increase in activity in preparation for the commercial launch of Angiomax.

Interest Income and Interest Expense. Interest income increased 223% from $838,000 in 1999 to $2.7 million in 2000. The increase of $1.9 million was primarily due to interest income arising from investment of the proceeds of our initial public offering.

Interest expense was $19.4 million in 2000 and was related to interest charges and the amortization of the discount on our convertible notes issued in October 1999 and March 2000. The notes were converted into series IV convertible preferred stock in May 2000, accelerating the remaining unamortized discount.

Years Ended December 31, 1999 and 1998

Research and Development Expenses. Research and development expenses increased 26% from $24.0 million in 1998 to $30.3 million in 1999. The increase of $6.3 million was due to the expansion in 1999 of our clinical development programs, primarily those relating to our Angiomax HERO-2 Phase 3 clinical trial in AMI which commenced in late 1998, our IS-159 development program and our Angiomax trials in angioplasty.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 20% from $6.2 million in 1998 to $5.0 million in 1999. The decrease of $1.2 million was primarily due to a decrease in Angiomax-related marketing expenses.

Interest Income and Interest Expense. Interest income decreased 36% from $1.3 million in 1998 to $838,000 in 1999 due to a lower level of cash and marketable securities available for investment during 1999 as compared to 1998. Interest expense was $197,000 in 1999 and related to interest expense and amortization of the discount on our convertible notes issued in the aggregate principal amount of $6.0 million in October 1999.

Liquidity and Capital Resources

In August and September 2000, we received $101.4 million in net proceeds from the sale of an aggregate of 6,900,000 shares of common stock in our initial public offering at a price of $16.00 per share. Prior to our initial public offering, we had financed our operations primarily through the private placement of equity, convertible debt securities and warrants. Until our initial public offering, we had received net proceeds of $79.4 million from the private placement of equity securities, primarily redeemable convertible preferred stock, and $19.4 million from the issuance of convertible notes and warrants.

As of December 31, 2000, we had $79.3 million in cash, cash equivalents and marketable securities, as compared to $7.2 million and $28.3 million as of December 31, 1999 and 1998, respectively.

During 2000, we used net cash of $48.1 million in operating activities. This consisted of a net loss for the period of $71.3 million, combined with a decrease in accounts payable of $1.8 million, an increase in inventory of $2.0 million and an increase in accrued interest receivable of $1.3 million, partly offset by an increase in accrued expenses of $5.7 million, noncash amortization of discount on convertible notes of $19.0

million and deferred compensation of $3.7 million. We spent $42.8 million for investing activities, which consisted principally of purchases of marketable securities with net proceeds from our initial public offering. We received $121.1 million from financing activities, primarily from our initial public offering, which resulted in net proceeds of $101.4 million, and from the issuance of convertible notes and preferred stock, which resulted in proceeds of $19.4 million during 2000.

During 1999, we placed an order with UCB Bioproducts for the manufacture of Angiomax bulk drug product. Manufacture of $14.2 million of this material was completed in 2000, of which $12.2 million was expensed during that period. All costs associated with the manufacture of Angiomax bulk drug product and finished products to which title has transferred to us prior to the date of FDA approval of Angiomax were expensed as research and development. We recorded Angiomax bulk drug product to which we took title after the date of FDA approval of Angiomax as inventory, which will increase our cost of sales in 2001 and possibly the following year. In November 2000, we placed additional orders with UCB Bioproducts for the manufacture of Angiomax bulk drug product. Under the terms of these purchase orders, we are scheduled to take title to material and become obligated to make payments totaling approximately $24.0 million in 2001 and early 2002.

As of December 31, 2000, we had net operating loss carryforwards of approximately $122.2 million to offset future federal taxable income expiring in 2011 through 2020 and approximately $116.0 million to offset future state taxable income expiring in 2001 through 2004. Due to the degree of uncertainty related to the ultimate realization of such net operating losses, no benefit has been recognized in the financial statements as of December 31, 2000. If we achieve profitability, such tax benefits would be recognized when their realization was considered more likely than not. Our ability to utilize these losses in future years, however, may be subject to limitation based upon changes in ownership under the rules of the Internal Revenue Code.

We expect to devote substantial resources to continue our research and development efforts and to expand our sales, marketing and manufacturing programs associated with the commercialization and launch of our products. Our funding requirements will depend on numerous factors, including whether Angiomax is commercially successful, the progress, level and timing of our research and development activities, the cost and outcomes of regulatory reviews, the establishment, continuation or termination of third-party manufacturing or sales and marketing arrangements, the cost and effectiveness of our sales and marketing programs, the status of competitive products, our ability to defend and enforce our intellectual property rights and the establishment of additional strategic or licensing arrangements with other companies or acquisitions.

We anticipate that our existing capital resources will enable us to maintain our current operations for at least the next 12 months. If our existing resources are insufficient to satisfy our liquidity requirements, or if we acquire additional product candidates or approved products, we may be required to seek additional financing prior to that time. The sale of additional equity and debt securities may result in additional dilution to our stockholders, and we cannot be certain that additional financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain this additional financing, we may be required to reduce the scope of our planned research, development and commercialization activities, which could harm our financial condition and operating results.

Factors Which May Affect Future Results

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For this purpose, any statements contained in this Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "intends," "may" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by forward-looking statements contained in this Report and presented elsewhere by management from time to time. These factors include the risk factors set forth below.

Risks Related to Our Business

WE HAVE A HISTORY OF NET LOSSES, AND WE EXPECT TO CONTINUE TO INCUR NET LOSSES AND MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY

We are a development stage company with no revenues through December 31, 2000. We have incurred net losses since our inception, including net losses of approximately $71.3 million for the year ended December 31, 2000. As of December 31, 2000, we had an accumulated deficit of approximately $196.6 million. We expect to make substantial expenditures to further develop and commercialize our products and expect that our rate of spending will accelerate as the result of costs and expenses associated with increased clinical trials, regulatory approval and commercialization of products. As a result, we are unsure when we will become profitable, if at all.

OUR BUSINESS WILL BE VERY DEPENDENT ON THE COMMERCIAL SUCCESS OF ANGIOMAX

Other than Angiomax, our products are in clinical phases of development and, even if approved by the FDA, are a number of years away from entering the market. As a result, Angiomax will account for almost all of our revenues for the foreseeable future. The commercial success of Angiomax will depend upon its acceptance by physicians, patients and other key decision-makers as a therapeutic and cost-effective alternative to heparin and other products used in current practice. If Angiomax is not commercially successful, we will have to find additional sources of revenues or curtail or cease operations.

FAILURE TO RAISE ADDITIONAL FUNDS IN THE FUTURE MAY AFFECT THE DEVELOPMENT, MANUFACTURE AND SALE OF OUR PRODUCTS

Our operations to date have generated substantial and increasing needs for cash. Our negative cash flow from operations is expected to continue into the foreseeable future. The clinical development of Angiomax for additional indications, the development of our other product candidates and the acquisition and development of additional product candidates by us will require a commitment of substantial funds. Our future capital requirements are dependent upon many factors and may be significantly greater than we expect.

We anticipate that our existing capital resources will enable us to maintain our current operations for at least the next 12 months. If our existing resources are insufficient to satisfy our liquidity requirements, or if we acquire any additional product candidates, we may be required to seek additional financing prior to that time. We intend to seek additional funding through collaborative arrangements and private or public financings, including equity financings. Such additional funding may not be available on acceptable terms, if at all. If additional funds are not available to us, we may need to delay or significantly curtail our acquisition, development or commercialization activities.

WE CANNOT EXPAND THE INDICATIONS FOR ANGIOMAX UNLESS WE RECEIVE FDA APPROVAL FOR EACH ADDITIONAL INDICATION. FAILURE TO EXPAND THESE INDICATIONS WILL LIMIT THE SIZE OF THE COMMERCIAL MARKET FOR ANGIOMAX

We received, in December 2000, approval from the FDA of the use of Angiomax as an anticoagulant in combination with aspirin in patients with unstable angina undergoing coronary balloon angioplasty. One of our key objectives is to expand the indications for which the FDA will approve Angiomax. In order to do this, we will need to conduct additional clinical trials and obtain FDA approval for each proposed indication. If we are unsuccessful in expanding the approved indication for the use of Angiomax, the size of the commercial market for Angiomax will be limited.

FAILURE TO OBTAIN REGULATORY APPROVAL IN FOREIGN JURISDICTIONS WILL PREVENT US FROM MARKETING ANGIOMAX ABROAD

We intend to market our products in international markets, including Europe. In order to market our products in the European Union and many other foreign jurisdictions, we must obtain separate regulatory approvals. In February 1998, we submitted a MAA to the EMEA for use in unstable angina patients undergoing angioplasty. Following extended interaction with European regulatory authorities, the CPMP of the EMEA voted in October 1999 not to recommend Angiomax for approval in angioplasty. The United Kingdom and Ireland dissented from this decision. We have withdrawn our application to the EMEA and are in active dialog with European regulators to determine our course of action including seeking approval of Angiomax in Europe on a country-by-country basis. We may not be able to obtain approval from any or all of the jurisdictions in which we seek approval to market Angiomax. Obtaining foreign approvals may require additional trials and additional expense.

THE DEVELOPMENT AND COMMERCIALIZATION OF OUR PRODUCTS MAY BE TERMINATED OR DELAYED, AND THE COSTS OF DEVELOPMENT AND COMMERCIALIZATION MAY INCREASE, IF THIRD PARTIES WHO WE RELY ON TO MANUFACTURE AND SUPPORT THE DEVELOPMENT AND COMMERCIALIZATION OF OUR PRODUCTS DO NOT FULFILL THEIR OBLIGATIONS

Our development and commercialization strategy entails entering into arrangements with corporate and academic collaborators, contract research organizations, contract sales organizations, distributors, third-party manufacturers, licensors, licensees and others to conduct development work, manage our clinical trials and manufacture, market and sell our products. Although we manage these services, we do not have the expertise or the resources to conduct such activities on our own and, as a result, are particularly dependent on third parties in most areas.

We may not be able to maintain our existing arrangements with respect to the commercialization of Angiomax or establish and maintain arrangements to develop and commercialize any additional products on terms that are acceptable to us. Any current or future arrangements for the development and commercialization of our products may not be successful. If we are not able to establish or maintain our agreements relating to Angiomax or any additional products on terms which we deem favorable, our financial condition would be materially adversely effected.

Third parties may not perform their obligations as expected. The amount and timing of resources that third parties devote

to developing, manufacturing and commercializing our products may not be within our control. Furthermore, our interests may differ from those of third parties that manufacture or commercialize our products. Disagreements that may arise with these third parties could delay or lead to the termination of the development or commercialization of our product candidates, or result in litigation or arbitration, which would be time consuming and expensive. If any third party that manufactures or supports the development or commercialization of our products breaches or terminates its agreement with us, or fails to conduct its activities in a timely manner, such breach, termination or failure could:

- delay the development or commercialization of Angiomax, our other product candidates or any additional product candidates that we may acquire or develop;
- require us to undertake unforeseen additional responsibilities or devote unforeseen additional resources to the development or commercialization of our products; or
- result in the termination of the development or commercialization of our products.

WE ARE CURRENTLY DEPENDENT ON A SINGLE SUPPLIER FOR THE PRODUCTION OF ANGIOMAX BULK DRUG SUBSTANCE AND A DIFFERENT SINGLE SUPPLIER TO CARRY OUT ALL FILL-FINISH ACTIVITIES FOR ANGIOMAX

Currently, we obtain all of our Angiomax bulk drug substance from one manufacturer, UCB Bioproducts, and rely on another manufacturer, Ben Venue Laboratories, to carry out all fill-finish activities for Angiomax, which includes final formulation and transfer of the drug into vials where it is then freeze-dried and sealed. The FDA requires that all manufacturers of pharmaceuticals for sale in or from the United States achieve and maintain compliance with the FDA's current Good Manufacturing Practice, or cGMP, regulations and guidelines. There are a limited number of manufacturers that operate under cGMP regulations capable of manufacturing Angiomax. The FDA has inspected Ben Venue Laboratories for cGMP compliance for the manufacture of Angiomax and UCB Bioproducts for cGMP compliance in the manufacture of pharmaceutical ingredients generally. Ben Venue Laboratories and UCB Bioproducts have informed us that they have no material deficiencies in cGMP compliance. We do not currently have alternative sources for production of Angiomax bulk drug substance or to carry out fill-finish activities. In the event that either of our current manufacturers is unable to carry out its respective manufacturing obligations to our satisfaction, we may be unable to obtain alternative manufacturing, or obtain such manufacturing on commercially reasonable terms or on a timely basis.

Any delays in the manufacturing process may adversely impact our ability to meet commercial demands for Angiomax on a timely basis and supply product for clinical trials of Angiomax.

IF WE DO NOT SUCCEED IN DEVELOPING A SECOND GENERATION PROCESS FOR THE PRODUCTION OF BULK ANGIOMAX DRUG SUBSTANCE, OUR GROSS MARGINS MAY BE BELOW INDUSTRY AVERAGES

We are currently developing with UCB Bioproducts a second generation process for the production of bulk Angiomax drug substance. This process involves limited changes to the early manufacturing steps of our current process in order to improve our gross margins on the future sales of Angiomax. If we cannot develop the process successfully or regulatory approval of the process is not obtained or is delayed, then our ability to improve our gross margins on future sales of Angiomax may be limited.

CLINICAL TRIALS OF OUR PRODUCT CANDIDATES ARE EXPENSIVE AND TIME CONSUMING, AND THE RESULTS OF THESE TRIALS ARE UNCERTAIN

Before we can obtain regulatory approvals for the commercial sale of any product which we wish to develop, we will be required to complete pre-clinical studies and extensive clinical trials in humans to demonstrate the safety and efficacy of such product. We are currently conducting four clinical trials of Angiomax for use in the treatment of ischemic heart disease. There are numerous factors which could delay our clinical trials or prevent us from completing these trials successfully. We or the FDA may suspend a clinical trial at any time on various grounds, including a finding that patients are being exposed to unacceptable health risks.

The rate of completion of clinical trials depends in part upon the rate of enrollment of patients. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the existence of competing clinical trials and the availability of alternative or new treatments. In particular, the patient population targeted by some of our clinical trials may be small. Delays in future planned patient enrollment may result in increased costs and program delays.

In addition, clinical trials, if completed, may not show any potential product to be safe or effective. Results obtained in pre-clinical studies or early clinical trials are not always indicative of results that will be obtained in later clinical trials. Moreover, data obtained from pre-clinical studies and clinical trials may be subject to varying interpretations. As a result, the FDA or other applicable regulatory authorities may not approve a product in a timely fashion, or at all.

OUR FAILURE TO ACQUIRE AND DEVELOP ADDITIONAL PRODUCT CANDIDATES OR APPROVED PRODUCTS WILL IMPAIR OUR ABILITY TO GROW

As part of our growth strategy, we intend to acquire and develop additional pharmaceutical product candidates or approved products. The success of this strategy depends upon our ability to identify, select and acquire pharmaceutical products in late-stage development or that have been approved that meet the criteria we have established. Because we do not have, nor intend to establish, internal scientific research capabilities, we are dependent upon pharmaceutical and biotechnology companies and other researchers to sell or license product candidates to us.

Identifying suitable product candidates and approved products and proposing, negotiating and implementing an economically viable acquisition is a lengthy and complex process. In addition, other companies, including those with substantially greater financial, marketing and sales resources, may compete with us for the acquisition of product candidates and approved products. We may not be able to acquire the rights to additional product candidates and approved products on terms that we find acceptable, or at all.

IF WE BREACH ANY OF THE AGREEMENTS UNDER WHICH WE LICENSE COMMERCIALIZATION RIGHTS TO PRODUCTS OR TECHNOLOGY FROM OTHERS, WE COULD LOSE LICENSE RIGHTS THAT ARE IMPORTANT TO OUR BUSINESS

We license commercialization rights to products and technology that are important to our business, and we expect to enter into additional licenses in the future. For instance, we acquired our first three products through exclusive licensing arrangements. Under these licenses we are subject to commercialization and development, sublicensing, royalty, insurance and other obligations. If we fail to comply with any of these requirements, or otherwise breach these license agreements, the licensor may have the right to terminate the license in whole or to terminate the exclusive nature of the license. In addition, upon the termination of the license we may be required to license to the licensor the intellectual property that we developed.

OUR ABILITY TO MANAGE OUR BUSINESS EFFECTIVELY COULD BE HAMPERED IF WE ARE UNABLE TO ATTRACT AND RETAIN KEY PERSONNEL AND CONSULTANTS

The biopharmaceutical industry has experienced a high rate of turnover of management personnel in recent years. We are highly dependent on our ability to attract and retain qualified personnel for the acquisition, development and commercialization activities we conduct or sponsor. If we lose one or more of the members of our senior management, including our chief executive officer, Dr. Clive A. Meanwell, or other key employees or consultants, our business and operating results could be seriously harmed. Our ability to replace these key employees may be difficult and may take an extended period of time because of the limited number of individuals in the biotechnology industry with the breadth of skills and experience required to develop and commercialize products successfully. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate such additional personnel.

WE FACE SUBSTANTIAL COMPETITION, WHICH MAY RESULT IN OTHERS DISCOVERING, DEVELOPING OR COMMERCIALIZING COMPETING PRODUCTS BEFORE OR MORE SUCCESSFULLY THAN WE DO

The biopharmaceutical industry is highly competitive. Our success will depend on our ability to develop products and apply technology and our ability to establish and maintain a market for our products. Potential competitors in the United States and other countries include major pharmaceutical and chemical companies, specialized biotechnology firms, universities and other research institutions. Many of our competitors have substantially greater research and development capabilities and experience, and greater manufacturing, marketing and financial resources than we do. Accordingly, our competitors may develop products or other novel technologies that are more effective, safer or less costly than any that have been competing or are being developed by us or may obtain FDA approval for products more rapidly than we are able. Technological development by others may render our products or product candidates noncompetitive. We may not be successful in establishing or maintaining technological competitiveness.

BECAUSE THE MARKET FOR THROMBIN INHIBITORS IS COMPETITIVE, OUR PRODUCT MAY NOT OBTAIN WIDESPREAD USE

We plan to position Angiomax as a replacement to heparin, which is widely-used and inexpensive, for use in patients with ischemic heart disease. Because heparin is inexpensive and has been widely used for many years, medical decision-makers may be hesitant to adopt our alternative treatment. In addition, due to the high incidence and severity of cardiovascular diseases, the market for thrombin inhibitors is large and competition is intense and growing. There are a number of thrombin inhibitors currently on the market, awaiting regulatory approval and in development, including orally administered agents.

THE LIMITED RESOURCES OF THIRD-PARTY PAYORS MAY LIMIT THE USE OF OUR PRODUCTS

In general, anticoagulant drugs may be classified in three groups: drugs that directly or indirectly target and inhibit thrombin, drugs that target and inhibit platelets and drugs that break down fibrin. Because each group of anticoagulants acts on different components of the clotting process, we believe that there will be continued clinical work to determine the best combination of drugs for clinical use. We expect Angiomax to be used with aspirin alone or in conjunction with other therapies. Although we do not plan to position Angiomax as a direct competitor to platelet inhibitors or fibrinolytic drugs, platelet inhibitors and fibrinolytic drugs may compete with Angiomax for the use of hospital financial resources. Many U.S. hospitals receive a fixed reimbursement amount per procedure for the angioplasties and other treatment therapies they perform. Because this amount is not based on the actual expenses the hospital incurs, U.S. hospitals may have to choose among Angiomax, platelet inhibitors and fibrinolytic drugs.

FLUCTUATIONS IN OUR OPERATING RESULTS COULD AFFECT THE PRICE OF OUR COMMON STOCK

Our operating results may vary from period to period based on the amount and timing of sales of Angiomax to customers in the United States, the availability and timely delivery of a sufficient supply of Angiomax, the timing and expenses of clinical trials, the availability and timing of third-party reimbursement and the timing of approval for our product candidates. If our operating results do not match the expectations of securities analysts and investors as a result of these and other factors, the trading price of our common stock may fluctuate.

Risks Related to Our Industry

IF WE DO NOT OBTAIN FDA APPROVALS FOR OUR PRODUCTS OR COMPLY WITH GOVERNMENT REGULATIONS, WE MAY NOT BE ABLE TO MARKET OUR PRODUCTS AND MAY BE SUBJECT TO STRINGENT PENALTIES

Except for Angiomax, which has been approved for sale in the United States and New Zealand, we do not have a product approved for sale in the United States or any foreign market. We must obtain approval from the FDA in order to sell our product candidates in the United States and from foreign regulatory authorities in order to sell our product candidates in other countries. We must successfully complete our clinical trials and demonstrate manufacturing capability before we can file with the FDA for approval to sell our products. The FDA could require us to repeat clinical trials as part of the regulatory review process. Delays in obtaining or failure to obtain regulatory approvals may:

— delay or prevent the successful commercialization of any of our product candidates;

— diminish our competitive advantage; and

— defer or decrease our receipt of revenues or royalties.

The regulatory review and approval process is lengthy, expensive and uncertain. Extensive pre-clinical data, clinical data and supporting information must be submitted to the FDA for each additional indication to obtain such approvals, and we cannot be certain when we will receive these regulatory approvals, if ever.

In addition to initial regulatory approval, our products and product candidates will be subject to extensive and rigorous ongoing domestic and foreign government regulation. Any approvals, once obtained, may be withdrawn if compliance with regulatory requirements is not maintained or safety problems are identified. Failure to comply with these requirements may also subject us to stringent penalties.

WE MAY NOT BE ABLE TO OBTAIN OR MAINTAIN PATENT PROTECTION FOR OUR PRODUCTS, AND WE MAY INFRINGE THE PATENT RIGHTS OF OTHERS

The patent positions of pharmaceutical and biotechnology companies like us are generally uncertain and involve complex legal, scientific and factual issues. Our success depends significantly on our ability to:

— obtain patents;

— protect trade secrets;

— operate without infringing the proprietary rights of others; and

— prevent others from infringing our proprietary rights.

We may not have any patents issued from any patent applications that we own or license. If patents are granted, the claims allowed may not be sufficiently broad to protect our technology. In addition, issued patents that we own or license may be challenged, invalidated or circumvented. Our patents also may not afford us protection against competitors with similar technology. Because patent applications in the United States are maintained in secrecy until patents issue, others may have filed or maintained patent applications for technology used by us or covered by our pending patent applications without our being aware of these applications. In all, we exclusively license 10 issued United States patents and a broadly filed portfolio of corresponding foreign patents and patent applications. We have not yet filed any independent patent applications.

We may not hold proprietary rights to some patents related to our product candidates. In some cases, others may own or control these patents. As a result, we may be required to obtain licenses under third-party patents to market some of our product candidates. If licenses are not available to us on acceptable terms, we will not be able to market these products.

We may become a party to patent litigation or other proceedings regarding intellectual property rights. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. If any patent litigation or other intellectual property proceeding in which we are involved is resolved unfavorably to us, we may be enjoined from manufacturing or selling our products and services without a license from the other party, and we may be held liable for significant damages. We may not be able to obtain any required license on commercially acceptable terms, or at all.

IF WE ARE NOT ABLE TO KEEP OUR TRADE SECRETS CONFIDENTIAL, OUR TECHNOLOGY AND INFORMATION MAY BE USED BY OTHERS TO COMPETE AGAINST US

We rely significantly upon unpatented proprietary technology, information, processes and know how. We seek to protect this information by confidentiality agreements with our employees, consultants and other third-party contractors, as well as through other security measures. We may not have adequate remedies for any breach by a party to these confidentiality agreements. In addition, our competitors may learn or independently develop our trade secrets.

WE COULD BE EXPOSED TO SIGNIFICANT LIABILITY CLAIMS IF WE ARE UNABLE TO OBTAIN INSURANCE AT ACCEPTABLE COSTS AND ADEQUATE LEVELS OR OTHERWISE PROTECT OURSELVES AGAINST POTENTIAL PRODUCT LIABILITY CLAIMS

Our business exposes us to potential product liability risks which are inherent in the testing, manufacturing, marketing and sale of human healthcare products. Product liability claims might be made by consumers, health care providers or pharmaceutical companies or others that sell our products. These claims may be made even with respect to those products that are manufactured in licensed and regulated facilities or that otherwise possess regulatory approval for commercial sale.

These claims could expose us to significant liabilities that could prevent or interfere with the development or commercialization of our products. Product liability claims could require us to spend significant time and money in litigation or pay significant damages. We are currently covered, with respect to our commercial sales in the United States and New Zealand and our clinical trials, by primary product liability insurance in the amount of $20.0 million per occurrence and $20.0 million annually in the aggregate on a claims-made basis. This coverage may not be adequate to cover any product liability claims. As we commence commercial sales of our products, we may wish to increase our product liability insurance, and we will need to extend the coverage of our product liability insurance to cover our commercial sales of Angiomax in the United States. Product liability coverage is expensive. In the future, we may not be able to maintain or obtain such product liability insurance on reasonable terms, at a reasonable cost or in sufficient amounts to protect us against losses due to product liability claims.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our exposure to market risk is confined to our cash, cash equivalents and marketable securities. We place our investments in high-quality financial instruments, primarily money market funds and corporate debt securities with maturities or auction dates of less than one year, which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. At December 31, 2000, we held $79.3 million in cash, cash equivalents, and marketable securities, all due within one year, which had an average interest rate of approximately 6.5%.

We currently hold a $3.0 million principal investment in Southern California Edison 5⅞% bonds due January 15, 2001, which is accounted for in accordance with Statement of Financial Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." We classify these securities as available-for-sale and carry them at fair market value based on the quoted market price. We have exposure to market risk related to the fluctuation of the Southern California Edison bonds' price, which fluctuation has increased significantly as a result of events which occurred after December 31, 2000, including the non-payment of principal and interest on the bonds at maturity on January 15, 2001. The value of our investments in these Southern California Edison bonds was approximately $2.5 million as of March 28, 2001.

Most of our transactions are conducted in U.S. dollars. We do have certain development and commercialization agreements with vendors located outside the United States. Transactions under certain of these agreements are conducted in U.S. dollars, subject to adjustment based on significant fluctuations in currency exchange rates. Transactions under certain other of these agreements are conducted in the local foreign currency. If the applicable exchange rate undergoes a change of 10%, we do not believe that it would have a material impact on our results of operations or cash flows.

Consolidated Balance Sheets

	December 31,	
	1999	**2000**
Assets		
Current assets:		
Cash and cash equivalents	$ 6,643,266	**$ 36,802,356**
Marketable securities	539,274	**42,522,729**
Accrued interest receivable	55,225	**1,392,928**
	7,237,765	**80,718,013**
Inventory	—	**1,963,491**
Prepaid expenses and other current assets	154,967	**465,650**
Total current assets	7,392,732	**83,147,154**
Fixed assets, net	430,061	**965,832**
Other assets	168,605	**250,144**
Total assets	$ 7,991,398	**$ 84,363,130**
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 7,815,028	**$ 5,987,213**
Accrued expenses	3,680,293	**9,136,934**
Total current liabilities	11,495,321	**15,124,147**
Convertible notes	5,776,319	**—**
Commitments and contingencies		
Redeemable Convertible Preferred Stock, $1 par value; 31,550,000 and 5,000,000 shares authorized at December 31, 1999 and 2000, respectively; shares issued and outstanding: 22,962,350 and none at December 31, 1999 and 2000, respectively; at redemption value (liquidation value of $86,167,821 and $0 at December 31, 1999 and 2000, respectively)	85,277,413	**—**
Stockholders' equity/(deficit):		
Common stock, $.001 par value, 36,000,000 and 75,000,000 shares authorized at December 31, 1999 and 2000, respectively; shares issued and outstanding: 833,400 and 30,320,455 at December 31, 1999 and 2000, respectively	834	**30,320**
Additional paid-in capital	339,144	**279,126,337**
Deferred stock compensation	—	**(13,355,694)**
Deficit accumulated during the development stage	(94,925,028)	**(196,560,034)**
Accumulated other comprehensive income (loss)	27,395	**(1,946)**
Total stockholders' equity (deficit)	(94,557,655)	**69,238,983**
Total liabilities and stockholders' equity (deficit)	$ 7,991,398	**$ 84,363,130**

See accompanying notes.

Consolidated Statements of Operations

	Year Ended December 31,			Period July 31, 1996 (Date of Inception) to December 31, 2000
	1998	1999	**2000**	
Operating expenses:				
Research and development	$ 24,004,606	$ 30,344,892	**$ 39,572,297**	$ 110,793,397
Selling, general and administrative	6,248,265	5,008,387	**15,033,585**	29,411,917
Total operating expenses	30,252,871	35,353,279	**54,605,882**	140,205,314
Loss from operations	(30,252,871)	(35,353,279)	**(54,605,882)**	(140,205,314)
Other income (expense):				
Interest income	1,302,073	837,839	**2,704,126**	5,593,904
Interest expense	—	(197,455)	**(19,390,414)**	(19,617,104)
Net loss	(28,950,798)	(34,712,895)	**(71,292,170)**	(154,228,514)
Dividends and accretion to redemption value of redeemable preferred stock	(3,958,903)	(5,893,016)	**(30,342,988)**	(42,331,520)
Net loss attributable to common stockholders	$(32,909,701)	$(40,605,911)	**$(101,635,158)**	$(196,560,034)
Basic and diluted net loss attributable to common stockholders per common share	$ (6.03)	$ (80.08)	**$ (8.43)**	
Unaudited pro forma basic and diluted net loss attributable to common stockholders per common share	$ —	$ (1.94)	**$ (2.10)**	
Shares used in computing net loss attributable to common stockholders per common share:				
Basic and diluted	5,454,653	507,065	**12,059,275**	
Unaudited pro forma basic and diluted	—	17,799,876	**24,719,075**	

See accompanying notes.

Consolidated Statements of Redeemable Preferred Stock and Stockholders' Equity (Deficit)

	For the Period July 31, 1996 (Date of Inception) to December 31, 2000					
	Redeemable Preferred Stock		Redeemable Convertible Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Issuance of common stock				$ —	2,042,175	$ 2,042
Issuance of redeemable preferred stock	4,675	$ 4,675,000				
Accretion of preferred stock to redemption value		118,348				
Net loss						
Balance at December 31, 1996	4,675	4,793,348	—	—	2,042,175	2,042
Employee stock purchases					627,070	627
Issuance of common stock					7,186,537	7,187
Issuance of redeemable preferred stock	34,456	33,498,408				
Dividends on preferred stock	1,175	1,056,652				
Accretion of preferred stock to redemption value		957,592				
Net loss						
Currency translation adjustment						
Unrealized gain on marketable securities						
Comprehensive loss						
Balance at December 31, 1997	40,306	40,306,000	—	—	9,855,782	9,856
Employee stock purchases					34,887	35
Repurchase of common stock					(107,979)	(108)
Exchange of redeemable preferred stock for redeemable convertible preferred stock	(41,992)	(41,992,000)	13,071,714	41,992,000	(8,892,912)	(8,893)
Issuance of redeemable convertible preferred stock			8,421,907	35,126,419		
Dividends on preferred stock	1,686	1,686,000				
Accretion of preferred stock to redemption value				2,266,051		
Net loss						
Currency translation adjustment						
Unrealized loss on marketable securities						
Comprehensive loss						
Balance at December 31, 1998	—	—	21,493,621	79,384,470	889,778	890
Repurchase of common stock					(56,378)	(56)
Dividends on preferred stock			1,468,729	5,351,178		
Accretion of preferred stock to redemption value				541,765		
Issuance of warrants associated with convertible notes						
Net loss						
Currency translation adjustment						
Unrealized loss on marketable securities						
Comprehensive loss						
Balance at December 31, 1999	—	—	22,962,350	85,277,413	833,400	834
Repurchase of common stock					(22,205)	(22)
Employee stock purchases					227,525	226
Issuance of redeemable convertible preferred stock			5,946,366	25,688,284		
Accretion and dividend on preferred stock			1,751,241	4,898,537		
Beneficial conversion of redeemable convertible preferred stock						
Issuance of warrants associated with convertible notes						
Issuance of common stock through initial public offering					6,900,000	6,900
Conversion of preferred stock to common stock			(30,659,957)	(115,864,234)	22,381,735	22,382
Deferred compensation expense associated with stock options						
Adjustments to deferred compensation for terminations						
Amortization of deferred compensation						
Net loss						
Currency translation adjustment						
Unrealized loss on marketable securities						
Comprehensive loss						
Balance at December 31, 2000	**—**	**$ —**	**—**	**$ —**	**30,320,455**	**$30,320**

See accompanying notes.

For the Period July 31, 1996 (Date of Inception) to December 31, 2000

Additional Paid-In Capital	Deferred Stock Compensation	Deficit Accumulated During the Development Stage	Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
$ 755	$ —		$ —	$ 2,797
		$ (118,348)		(118,348)
		(1,466,877)		(1,466,877)
755	—	(1,585,225)	—	(1,582,428)
232				859
2,658				9,845
		(1,060,673)		(1,060,673)
		(957,592)		(957,592)
		(17,805,926)		(17,805,926)
			1,806	1,806
			7,274	7,274
				(17,796,846)
3,645	—	(21,409,416)	9,080	(21,386,835)
1,312				1,347
(40)				(148)
8,893				—
		(1,692,852)		(1,692,852)
		(2,266,051)		(2,266,051)
		(28,950,798)		(28,950,798)
			31,562	31,562
			(1,984)	(1,984)
				(28,921,220)
13,810		(54,319,117)	38,658	(54,265,759)
(21)				(77)
		(5,351,251)		(5,351,251)
		(541,765)		(541,765)
325.355				325,355
		(34,712,895)		(34,712,895)
			(3,847)	(3,847)
			(7,416)	(7,416)
				(34,724,158)
339,144	—	(94,925,028)	27,395	(94,557,665)
				(22)
286,068				286,294
				—
		(4,898,537)		(4,898,537)
25,444,299		(25,444,299)		—
18,789,805				18,789,805
101,343,162				101,350,062
115,841,732				115,864,114
17,279,612	(17,279,612)			—
(197,485)	197,485			—
	3,726,433			3,726,433
		(71,292,170)		(71,292,170)
			5,141	5,141
			(34,482)	(34,482)
				(71,321,511)
$279,126,337	**$(13,355,694)**	**$(196,560,034)**	**$ (1,946)**	**$ 69,238,983**

Consolidated Statements of Cash Flows

	Year Ended December 31,			Period July 31, 1996 (Date of Inception) to December 31, 2000
	1998	1999	**2000**	
Cash flows from operating activities:				
Net loss	$(28,950,798)	$(34,712,895)	**$ (71,292,170)**	$(154,228,514)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	98,413	207,663	**277,307**	618,677
Amortization of discount on convertible notes	—	101,674	**19,013,486**	19,115,160
Amortization of deferred stock compensation	—	—	**3,726,433**	3,726,433
Loss on sales of fixed assets	—	—	**14,631**	14,631
Changes in operating assets and liabilities:				
Accrued interest receivable	(705,515)	690,290	**(1,337,703)**	(1,392,928)
Inventory	—		**(1,963,491)**	(1,963,491)
Prepaid expenses and other current assets	(156,812)	39,141	**(312,027)**	(466,548)
Other assets	(152,165)	(3,349)	**(82,391)**	(250,629)
Accounts payable	(31,864)	5,528,544	**(1,823,602)**	5,990,320
Accrued expenses	(1,928,001)	1,258,366	**5,708,535**	9,386,636
Net cash used in operating activities	(31,826,742)	(26,890,566)	**(48,070,992)**	(119,450,253)
Cash flows from investing activities:				
Purchases of marketable securities	(29,861,162)	—	**(51,098,901)**	(111,144,188)
Maturities and sales of marketable securities	28,722,483	18,796,493	**9,083,090**	68,586,977
Purchase of fixed assets	(357,103)	(258,788)	**(834,160)**	(1,604,226)
Net cash provided by (used in) investing activities	(1,495,782)	18,537,705	**(42,849,971)**	(44,161,437)
Cash flows from financing activities:				
Proceeds from issuance of convertible notes and warrants	—	6,000,000	**13,348,779**	19,348,779
Proceeds from issuance of preferred stock, net	35,126,419	—	**6,095,338**	79,395,165
Proceeds from issuance of common stock, net	1,347	—	**101,636,356**	101,651,204
Repurchases of common stock	(148)	(77)	**(22)**	(247)
Dividends paid in cash	(6,852)	(73)	**(118)**	(11,064)
Net cash provided by financing activities	35,120,766	5,999,850	**121,080,333**	200,383,837
Effect of exchange rate changes on cash	29,928	(1,245)	**(280)**	30,209
Increase (decrease) in cash and cash equivalents	1,828,170	(2,354,256)	**30,159,090**	36,802,356
Cash and cash equivalents at beginning of period	7,169,352	8,997,522	**6,643,266**	—
Cash and cash equivalents at end of period	$ 8,997,522	$ 6,643,266	**$ 36,802,356**	$ 36,802,356
Non-cash transactions:				
Dividends on preferred stock	$ 1,686,000	$ 5,351,178	**$ 31,894,474**	$ 40,106,652
Supplemental disclosure of cash flow information:				
Interest paid	$ —	$ —	**$ 255,781**	$ 285,016

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 2000

1. Nature of Business

The Medicines Company (the Company) was incorporated in Delaware on July 31, 1996. The Company is a pharmaceutical company engaged in the acquisition, development and commercialization of late-stage development drugs. The Company is a development stage enterprise, as defined in Statement of Financial Accounting Standards No. 7, and has, since inception, been developing business plans, acquiring product rights, conducting initial commercialization activities, obtaining financing, performing research and development, conducting regulatory activities and recruiting and training personnel. In December 2000, The U.S. Food and Drug Administration (FDA) approved Angiomax® (bivalirudin), the Company's lead product, for use as an anticoagulant in patients with unstable angina undergoing percutaneous transluminal coronary angioplasty (PTCA).

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Company is subject to risks common to companies in the pharmaceutical industry including, but not limited to, uncertainties related to regulatory approvals, dependence on key products, and protection of proprietary rights.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk include cash, cash equivalents and marketable securities. The Company believes it minimizes its exposure to potential concentrations of credit risk by placing investments in high-quality financial instruments. At December 31, 2000, approximately $23,300,000 of the cash and cash equivalents balance was invested in the Merrill Lynch Premier Institutional Fund, a no-load money market fund.

Cash, Cash Equivalents and Marketable Securities

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of investments in money market funds, corporate bonds and taxable auction securities. These investments are carried at cost, which approximates fair value.

Marketable securities consist of securities with original maturities of greater than three months. The Company classifies its marketable securities as available-for-sale. Securities under this classification are recorded at fair market value and unrealized gains and losses are recorded as a separate component of stockholders' equity. The estimated fair value of the marketable securities is determined based on quoted market prices or rates for similar instruments. At December 31, 1999 and 2000, marketable securities consisted of investments in corporate bonds with maturities of less than one year and are summarized as follows:

	Cost	Unrealized Gain (Loss)	Fair Value
December 31, 1999	$ 541,400	$ (2,126)	$ 539,274
December 31, 2000	$42,559,337	$(36,608)	$42,522,729

There were no sales of available-for-sale securities during the years ended December 31, 1999 and 2000, although there were maturities of such securities as disclosed in the accompanying consolidated statement of cash flows.

The Medicines Company currently holds a $3.0 million principal investment in Southern California Edison 5⅞% bonds due January 15, 2001, which is accounted for in accordance with Statement of Financial Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." We classify these securities as available-for-sale and carry them at fair market value based on the quoted market price. We have exposure to market risk related to the fluctuation of the Southern California Edison bonds' price, which fluctuation has increased significantly as a result of events which occurred after December 31, 2000, including the non-payment of principal and interest on the bonds at maturity on January 15, 2001. At March 28, 2001, the value of the Company's investment in these Southern California Edison bonds had declined to approximately $2.5 million.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were approximately $1,491,000, $484,000 and $807,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

Inventory

The Company records inventory upon the transfer of title from its vendor. Inventory is stated at the lower of cost or market with cost determined using a weighted average of actual costs. All costs associated with the manufacture of Angiomax bulk drug product and finished product to which title transferred to the Company prior to FDA approval of Angiomax was expensed as research and development. On

December 15, 2000, the Company received FDA approval for Angiomax and any Angiomax bulk drug product to which the Company took title after that date is recorded as inventory.

Fixed Assets

Fixed assets are stated at cost. Depreciation is provided using the straight-line method based on estimated useful lives or, in the case of leasehold improvements, over the lesser of the useful lives or the lease terms.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25").

Translation of Foreign Currencies

The functional currencies of the Company's foreign subsidiaries are the local currencies; British pound sterling, Swiss franc and New Zealand dollar. The Company translates its foreign operations using a current exchange rate. In accordance with Statement of Financial Accounting Standards No. 52, assets and liabilities are exchanged using the current exchange rate as of the balance sheet date. Expenses and items of income are exchanged using a weighted average exchange rate over the period ended on the balance sheet date. Adjustments resulting from the translation of the financial statements of the Company's foreign subsidiaries into U.S. dollars are excluded from the determination of net loss and are accumulated in a separate component of stockholders' deficit. Foreign exchange transaction gains and losses are included in the results of operations and are not material to the Company's consolidated financial statements.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, as well as net operating loss carryforwards, and are measured using the enacted tax rates and laws that will be in effect when the differences reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with ultimate realization.

Comprehensive Income/(Loss)

The Company reports comprehensive income/(loss) and its components in accordance with the provisions of SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income/(loss) includes all changes in equity for cumulative translations adjustments resulting from the consolidation of foreign subsidiaries' financial statements and unrealized gains and losses on available-for-sale securities.

Recent Accounting Pronouncements

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. SAB 101, as amended, is effective beginning the fourth quarter of calendar fiscal years beginning after December 15, 1999 and requires companies to report any changes in revenue recognition as a cumulative change in accounting principle at the time of implementation. Adoption of SAB 101 did not have a material impact on the Company's financial position or results of operations, since the Company has no revenues to date.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The effective date of this statement was deferred to fiscal years beginning after June 15, 2000 by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of SFAS No. 133." The adoption of this new standard is not expected to have a material impact on the Company's financial condition or results of operations.

Net Loss Per Share

Basic net loss per share is computed using the weighted average number of shares of common stock outstanding during the period reduced, where applicable, for outstanding, yet unvested, shares. Diluted net loss per share includes the effect of stock options, warrants and redeemable convertible preferred stock and convertible notes outstanding during the period, if dilutive. Since the Company has a net loss for all periods presented, the effect of all potentially dilutive securities is antidilutive. Accordingly, basic and diluted net loss per share are the same.

Unaudited Pro Forma Net Loss Per Share

Unaudited pro forma net loss per share is computed using the weighted average number of common shares outstanding, including the pro forma effects of automatic conversion of all outstanding redeemable convertible preferred stock and accrued dividends and convertible notes and accrued interest through each balance sheet date into shares of the Company's common stock effective upon the closing of the Company's initial public offering, as if such conversion had occurred at the date of original issuance.

Segments

The Company is a development stage company focused on the acquisition, development and commercialization of late-stage development drugs. The Company has license rights to three potential products, Angiomax, CTV-05 and IS-159. The

Company manages its business and operations as one segment. There are no revenues to date for any potential products and the Company's assets are not identifiable to its three potential products.

3. Management's Plans and Financing

The Company is a development stage company and has incurred substantial losses since inception. To date, the Company has funded its operations through the issuance of debt and equity. The Company expects to continue to expend substantial amounts for continued product research, development and initial commercialization activities for the foreseeable future and management's plans with respect to funding this development are to secure additional equity, if possible, and to secure collaborative partnering arrangements that will provide available cash funding for operations.

Should additional equity financing or collaborative partnering arrangements be unavailable to the Company, management will restrict certain of the Company's planned activities and operations, as necessary, to sustain operations and conserve cash resources.

4. Fixed Assets

Fixed assets consist of the following:

	Estimated Life (Years)	December 31, 1999	December 31, **2000**
Furniture, fixtures and equipment	3	$ 323,685	**$ 547,748**
Computer hardware and software	3	213,376	**728,333**
Leasehold improvements	5	216,064	**243,060**
		753,125	**1,519,141**
Less: Accumulated depreciation		(323,064)	**(553,309)**
		$ 430,061	**$ 965,832**

Depreciation expense was approximately $98,000, $208,000 and $277,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

5. Accrued Expenses

Accrued expenses consist of the following at December 31:

	1999	**2000**
Development services	$3,283,767	**$5,998,117**
Other	396,526	**3,138,817**
	$3,680,293	**$9,136,934**

6. Convertible Notes

In October 1999, the Company issued $6,000,000 of 8% Convertible Notes ("the Notes") and 1,013,877 Common Stock Purchase Warrants ("the Warrants") to existing investors, raising proceeds of $6,000,000. The Notes were redeemable on January 15, 2001 and pay interest semi-annually at a rate of 8% per annum. The Notes were convertible into shares of stock of the Company upon a subsequent sale of stock of the Company provided that such sale resulted in aggregate gross proceeds of at least $6,000,000. The Notes were convertible into a number of shares of stock determined by dividing the outstanding principal and interest on the date of the subsequent sale by the price per share of such sale. Each Warrant provides the holder with the right to purchase one share of Common Stock of the Company at a price of $5.92 per share at any time prior to October 19, 2004. The exercise price and the number of shares underlying the Warrants could be adjusted in certain circumstances related to future issuances of capital stock. The Company recorded $325,355 as the fair value of the Warrants using the Black-Scholes method and the estimated fair value of the Company's Common Stock on the date of the issuance of warrants, and $5,674,645 as the value of the Notes on the issuance date. The discount on the Notes was amortized to interest expense over the expected term of the Notes, which the Company anticipated to be to June 2000. Since the Notes were issued in October 1999, the carrying amount approximates their fair value at December 31, 1999. Upon completion of the Company's sale of Series IV Preferred Stock in May 2000, the principal and accrued interest on the Notes was converted into 1,393,909 shares of Series IV Preferred Stock.

In March 2000, the Company issued $13,348,779 of 8% Convertible Notes ("the Notes") and 2,255,687 Common Stock Purchase Warrants ("the Warrants") to current stockholders, raising proceeds of $13,348,779. The Notes were redeemable on January 15, 2001 and accrue interest semi-annually at a rate of 8% per annum. The Notes were convertible into shares of stock of the Company upon a subsequent private sale of stock of the Company provided that such sale results in aggregate gross proceeds of at least $6,000,000. The Notes were convertible into a number of shares of stock determined by dividing the outstanding principal and interest on the date of the subsequent sale by the price per share of such sale. Each Warrant provides the holder with the right to purchase one share of Common Stock of the Company at a price of $5.92 per share at any time prior to March 2005. The exercise price and the number of shares underlying the Warrants could be adjusted in certain circumstances related to future issuances of stock. The Company recorded approximately $18,800,000 as the value of the Warrants using the Black-Scholes method and the estimated fair value of the Company's Common Stock on the date of the issuance of the warrants. The discount on the Notes was amortized over the expected term of the Notes, which the Company anticipated to be to June 2000. For the year ended December 31, 2000, amortization of the

discount was approximately $18,800,000 and is included with the interest expense in the accompanying financial statements. Upon completion of the Company's sale of Series IV Preferred Stock in May 2000, the principal and accrued interest on the Notes was converted into 3,141,457 shares of Series IV Preferred Stock.

7. Redeemable Preferred Stock and Stockholders' Equity

On June 29, 2000, the Company's Board of Directors approved a reverse split of 0.73 shares for every one share of common stock then outstanding. The reverse stock split became effective on August 4, 2000. The accompanying financial statements and footnotes, including all share and per share amounts, reflect the reverse stock split.

Series I, Series II, Series III and Series IV Redeemable Convertible Preferred Stock

During 1999 and 2000, the Company had designated four series of redeemable convertible preferred stock. A summary of the Series I, Series II, Series III and Series IV Redeemable Convertible Preferred Stock is as follows.

	December 31,	
	1999	**2000**
Series I, $1 par value, 3,550,000 shares authorized at December 31, 1999 and none at December 31, 2000, 2,678,005 shares and none issued and outstanding as of December 31, 1999 and 2000, respectively ($5,512,225 liquidation value at December 31, 1999 and $0 at December 31, 2000)	$ 5,512,225	**$ —**
Series II, $1 par value, 15,850,000 shares authorized at December 31, 1999 and none at December 31, 2000, 11,290,928 shares and none issued and outstanding as of December 31, 1999 and 2000, respectively ($40,670,864 liquidation value at December 31, 1999 and $0 at December 31, 2000)	40,670,864	—
Series III, $1 par value, 12,150,000 shares authorized at December 31, 1999 and none at December 31, 2000, 8,993,417 shares and none issued and outstanding as of December 31, 1999 and 2000, respectively ($39,984,732 liquidation value at December 31, 1999 and $0 at December 31, 2000)	39,094,324	—
Series IV, $1 par value, 12,150,000 shares authorized during December 31, 2000 and none at December 31, 1999, none issued and outstanding as of December 31, 2000	—	—
Total	$85,277,413	**$ —**

In August 1998, the Company executed an agreement (the "Exchange Agreement") under which 8,892,912 shares of common stock and 41,992 shares of Series A Redeemable Preferred Stock were exchanged for 2,506,000 shares of Series I Redeemable Convertible Preferred Stock and 10,565,714 shares of Series II Redeemable Convertible Preferred Stock. Holders of Series A Redeemable Preferred Stock were entitled to receive preferential cumulative annual dividends payable in additional shares of Series A Redeemable Preferred Stock at the rate of 7% per annum of the stated value. Prior to the Exchange Agreement, dividends earned from January 1, 1998 through the date of the Exchange Agreement were paid to the holders of Series A Redeemable Preferred Stock. During 1997, certain preferred shareholders waived their right to a portion of earned dividends and the Company paid agreed-upon amounts through December 31, 1997. To the extent that all or any part of the Stock would have resulted in the issuance of a fractional share of the Series A Preferred stock, the amount of such fraction, multiplied by the stated value, was paid in cash.

On May 17, 2000, the Company issued 1,411,000 shares of Series IV Redeemable Convertible Preferred Stock for net proceeds of $6,095,520. In addition, on May 17, 2000, the convertible notes and accrued interest were converted into 4,535,366 shares of Series IV Redeemable convertible Preferred Stock. The Series IV preferred stock carries terms and conditions similar to the Series I, II, III preferred stock. The Series IV preferred stock was convertible into common stock at a 1-for-0.73 conversion rate and automatically converted upon the closing of the sale of shares of common stock in an underwritten public offering. The Series IV Redeemable Convertible Preferred Stock issued on May 17, 2000 contained a beneficial conversion feature based on the estimated fair market value of common stock into which it is convertible. In accordance with EITF 98-5, the total amount of such beneficial conversion is approximately $25,450,000. The beneficial conversion is analogous to a dividend and was recognized during 2000 when issued. Simultaneously with the closing of the Company's initial public offering, 30,659,957 shares of Redeemable Convertible Preferred Stock then outstanding (including accrued dividends for the period August 1, 2000 to August 11, 2000) were converted into 22,381,735 shares of common stock.

A summary of the rights, preferences and privileges of the Series I, Series II, Series III and Series IV Redeemable Convertible Preferred Stock ("Series Preferred Stock") is as follows:

Dividends. The holders of each series of Series Preferred Stock are entitled to receive, prior to any distribution to the holders of Common Stock, preferential cumulative dividends payable in additional shares of such series of Series Preferred Stock at a rate of 7% per share per annum of the liquidation value of such series of Series Preferred Stock. Such dividends were paid annually commencing on July 31, 1999.

Liquidation. In the event of any liquidation, dissolution or winding up of the Company (either voluntary or involuntary), the holders of Series Preferred Stock are entitled to receive, out of the assets of the Company available for distribution to its stockholders, a per share amount equal to $2.00 per share in the case of the Series I Preferred Stock, $3.50 per share in the case of the Series II Preferred Stock and $4.32 in the case of the Series III and Series IV Preferred Stock, plus any accrued but unpaid dividends (the liquidation value). These distributions will be made prior to any distributions to other stockholders. Any amounts remaining after making such distributions will be distributed to the holders of Common Stock and Series Preferred Stock on parity with each other. If the remaining assets of the Company available for distribution to its stockholders are insufficient to pay all of the holders of Series Preferred Stock, distributions will be made first to the Series IV Preferred Stockholders, then to Series III Preferred Stockholders and then to the Series I and II Preferred Stockholders on a pro-rata basis.

Conversion. Holders of shares of Series Preferred Stock have the right to convert their shares at any time into shares of Common Stock. The conversion rate for each series of Series Preferred Stock is 0.73-for-1. The conversion rate for each series of Series Preferred Stock is subject (i) to proportional adjustments for splits, reverse splits, recapitalizations, etc., and (ii) to formula-weighted average adjustments in the event that the Company issues additional shares of Common Stock or securities convertible into or exercisable for Common Stock at a purchase price less than the applicable conversion price then in effect, other than the issuance of shares to directors, officers, employees and consultants pursuant to stock plans approved by the Board of Directors and certain other exceptions. Each share of Series Preferred Stock will be automatically converted into shares of Common Stock upon the closing of the sale of shares of Common Stock at a price of at least $8.90 per share (subject to appropriate adjustment for stock dividends, stock splits, combinations and other similar recapitalizations affecting such shares) in an underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, resulting in at least $15,000,000 of gross proceeds to the Company.

Redemption. The Company will redeem the outstanding shares of Series Preferred Stock in three equal annual installments commencing July 31, 2002 at a price equal to the liquidation value of such shares.

Voting. Generally, holders of shares of Series Preferred Stock vote on all matters, including the election of directors, with the holders of shares of Common Stock on an as-converted basis, except where a class vote is required by law.

Accretion. Series Preferred Stock is accreted to its redemption value to recognize issuance costs over the period from issuance to redemption using the interest method and to reflect accrued but unpaid dividends.

Common Stock

Common Stockholders are entitled to one vote per share and dividends when declared by the Board of Directors, subject to the preferential rights of preferred stockholders.

Upon the completion of its Initial Public Offering ("IPO") on August 11, 2000, the Company sold 6,000,000 shares of its common stock at a price of $16.00 per share. In addition, on September 8, 2000, the underwriters of the IPO exercised their over-allotment option and purchased an additional 900,000 shares of common stock at a price of $16.00 per share. The Company received proceeds of approximately $101.4 million, net of underwriting discounts and commissions, and expenses. Simultaneously with the closing of the IPO, 30,659,957 shares of Redeemable Convertible Preferred Stock then outstanding (including accrued dividends for the period August 1, 2000 to August 11, 2000) were converted into 22,381,735 shares of common stock.

During 1996, 1997 and 1998, certain employees of the Company purchased 335,800, 627,070 and 32,850 shares of common stock, respectively, for $0.001 per share. These shares are subject to restriction and vesting agreements that limit transferability and allow the Company to repurchase unvested shares at the original purchase price. The shares vest ratably over a four-year period that generally begins on each employee's hire date. During 1998, 1999 and 2000, the Company repurchased 107,979, 56,378 and 22,205 shares, respectively, of unvested common stock for $0.001 per share. There were 62,722 shares of common stock unvested at December 31, 2000.

Stock Plans

In April 1998, the Company adopted the 1998 Stock Incentive Plan (the "Plan"), which provides for the grant of stock options, restricted stock and other stock-based awards to employees, directors and consultants. The plan allows for the issuance of up to 1,083,259 shares of common stock through April 2008. The Board of Directors determines the term of each option, the option price, the number of shares for which each option is granted and the rate at which each option is exercisable. During 1999, the Board of Directors amended all outstanding grants to allow holders the opportunity to exercise options prior to vesting. Exercised options that are unvested are subject to repurchase by the Company at the original exercise price. Options granted under the plan generally vest in increments over four years.

Notes to Consolidated Financial Statements *(continued)*

December 31, 2000

In January 2000, the Board of Directors approved an amendment to the Plan to increase the number of shares available under the Plan to 1,448,259. In May 2000, the Board of Directors approved an amendment to the Plan to increase the number of shares available under the Plan to 4,368,259. In addition, the Board of Directors also approved the 2000 Employee Stock Purchase Plan which provides for the issuance of up to 255,500 shares of common stock to participating employees and the 2000 Directors Stock Option Plan which provides for the issuance of up to 250,000 shares of common stock to the Company's directors. Both the 2000 Employee Stock Purchase Plan and the 2000 Directors Stock Option Plan have received stockholder approval.

Prior to the Company's initial public offering, the Board of Directors of the Company determined the fair value of the Company's common stock in its good faith judgment at each option grant date for grants under the Plan considering a number of factors including the financial and operating performance of the Company, recent transactions in the Company's common and preferred stock, if any, the values of similarly situated companies and the lack of marketability of the Company's common stock. Following the Company's initial public offering, the fair value is determined based on the traded value of the Company's common stock.

During the period January 1, 2000 to September 31, 2000, the Company issued 2,273,624 options at exercise prices below the estimated fair value of the Company's common stock as of the date of grant of such options based on the price of the Company's common stock in connection with the Company's initial public offering. The total deferred compensation associated with these options is approximately $17.3 million. Included in the results of operations for the year ended December 31, 2000 is compensation expense of approximately $3.7 million associated with such options.

The Company has elected to follow APB 25 in accounting for its stock options granted to employees because the alternative fair value accounting provided for under SFAS 123, requires the use of option valuation models that were not developed for use in valuing employee stock options. Because the exercise price of the Company's stock options generally equals the market price of the underlying stock on the date of grant, no compensation is recognized under APB 25. Had compensation costs for the Plan been determined based on the fair value at the grant dates as calculated in accordance with SFAS 123, the Company's net loss for the year ended December 31, 1999 and 2000 would have been increased to the pro forma amounts indicated below.

	Years Ended December 31,		
	1998	1999	**2000**
Net loss attributable to common stockholders—As reported	$32,909,701	$40,605,911	**$101,635,158**
Net loss attributable to common stockholders—Pro forma	$32,965,764	$40,771,828	**$106,150,604**
Net loss per share attributable to common stockholders—As reported	$ (6.03)	$ (80.08)	**$ (8.43)**
Net loss per share attributable to common stockholders—Pro forma	$ (6.04)	$ (80.41)	**$ (8.80)**

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Years Ended December 31,		
	1998	1999	**2000**
Expected dividend yield	0%	0%	**0%**
Expected stock price volatility	70%	70%	**70%**
Risk-free interest rate	4.70%	5.45%	**6.32%**
Expected option term	3.38 years	3.30 years	**3.35 years**

A summary of stock option activity under the 1998 Stock Incentive Plan and the 2000 Directors Stock Option Plan are as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding, December 31, 1997	—	$ —
Granted	734,745	1.11
Exercised	(2,037)	0.64
Canceled	(27,437)	0.88
Outstanding, December 31, 1998	705,271	1.12
Granted	239,075	1.23
Canceled	(175,380)	1.05
Outstanding, December 31, 1999	768,966	1.16
Granted	3,080,424	9.80
Exercised	(227,523)	1.26
Canceled	(406,713)	1.22
Outstanding, December 31, 2000	**3,215,154**	**$9.43**
Available for future grant at December 31, 2000	**1,173,545**	

The weighted average per share fair value of options granted during 1998, 1999 and 2000 was $0.55, $0.62 and $10.34, respectively. The weighted average fair value and exercise price of options granted during 2000 which were granted with exercise prices below the fair market value were $9.35 and $4.68, respectively. The weighted average fair value and exercise price of options granted during 2000 which were granted with exercise prices equal to the fair market value were $13.19 and $24.96, respectively.

The following table summarizes information about stock options from the 1998 Stock Incentive Plan and the 2000 Directors Stock Option Plan outstanding at December 31, 2000:

	Options Outstanding			Options Vested	
Range of Exercise Prices	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding at 12/31/00	Weighted Average Exercise Price
$ 0.69–$ 3.08	911,673	8.72	$ 1.63	363,052	$1.46
$ 4.79–$ 4.79	850,450	9.39	$ 4.79	115,582	$4.79
$ 5.92–$12.00	631,231	9.52	$ 6.69	3,815	$5.92
$19.88–$24.00	183,750	9.85	$22.76	—	—
$24.13–$30.63	638,050	9.93	$25.60	—	—
	3,215,154	9.36	$ 9.43	482,449	$2.29

Common Stock Reserved for Future Issuance

At December 31, 2000, there were 7,913,763 shares of common stock reserved for future issuance under the Employee Stock Purchase Plan, for conversion of the Common Stock Warrants and for grants made under the 1998 Stock Incentive Plan and the 2000 Director Stock Option Plan.

8. Net Loss and Unaudited Pro Forma Net Loss Per Share

The following table sets forth the computation of basic and diluted, and unaudited pro forma basic and diluted net loss per share for the respective periods. The unaudited pro forma basic and diluted net loss per share gives effect to the conversion of the redeemable convertible preferred stock and the convertible notes and accrued interest as if converted at the date of original issuance.

	Year Ended December 31,		
	1998	1999	**2000**
Basic and Diluted			
Net loss	$(28,950,798)	$(34,712,895)	**$ (71,292,170)**
Dividends and accretion on redeemable convertible preferred stock	(3,958,903)	(5,893,016)	**(30,342,988)**
Net loss attributable to common stockholders	$(32,909,701)	$(40,605,911)	**$(101,635,158)**
Weighted average common shares outstanding	6,075,948	850,238	**12,225,537**
Less: unvested restricted common shares outstanding	(621,295)	(343,173)	**(166,262)**
Weighted average common shares used to compute net loss per share	5,454,653	507,065	**12,059,275**
Basic and diluted net loss per share	$ (6.03)	$ (80.08)	**$ (8.43)**

	Year Ended December 31,	
	1999	**2000**
Unaudited Pro Forma Basic and Diluted		
Net loss	$(34,712,895)	**$(71,292,170)**
Interest expense on convertible notes	197,455	**19,390,414**
Net loss used to compute pro forma net loss per share	$(34,515,440)	**$(51,901,756)**
Weighted average common shares used to compute net loss per share	507,065	**12,059,275**
Weighted average number of common shares assuming the conversion of all redeemable convertible preferred stock and convertible notes and accrued interest at the date of original issuance	17,292,811	**12,659,800**
Weighted average common shares used to compute pro forma net loss per share	17,799,876	**24,719,075**
Unaudited pro forma basic and diluted net loss per share	$ (1.94)	**$ (2.10)**

Options to purchase 768,966 and 3,215,154 shares of common stock have not been included in the computation of diluted net loss per share for the years ended December 31, 1999 and 2000, respectively, as their effects would have been antidilutive. Warrants to purchase 1,013,877 and 3,269,564 shares of common stock were excluded from the computation of diluted net loss per share for the year ended December 31, 1999 and 2000, respectively, as their effect would be antidilutive.

9. Income Taxes

The significant components of the Company's deferred tax assets are as follows:

	December 31,	
	1999	**2000**
Deferred tax assets:		
Net operating loss carryforwards	$ 30,864,000	**$ 48,494,000**
Research and development credit	2,074,000	**3,576,000**
Intangible assets	1,139,000	**1,233,000**
Other	36,000	**86,000**
	34,113,000	**53,389,000**
Valuation allowance	(34,113,000)	**(53,389,000)**
Net deferred tax assets	$ —	**$ —**

The Company has increased its valuation allowance by $19,276,000 in 2000 to provide a full valuation allowance for deferred tax assets since the realization of these future benefits is not considered more likely than not. The amount of the deferred tax asset considered realizable is subject to change based on estimates of future taxable income during the carryforward period. If the Company achieves profitability, these deferred tax assets would be available to offset future income taxes. The future utilization of net operating losses and credits may be subject to limitation based upon changes in ownership under the rules of the Internal Revenue Code. The Company will assess the need for the valuation allowance at each balance sheet date based on all available evidence.

At December 31, 2000, the Company had federal net operating loss carryforwards available to reduce taxable income, and federal research and development tax credit carryforwards available to reduce future tax liabilities, which expire as follows:

Year of Expiration	Federal Net Operating Loss Carryforwards	Federal Research and Development Tax Credit Carryforwards
2011	$ 930,000	$ 22,000
2012	15,260,000	527,000
2018	27,876,000	425,000
2019	33,802,000	1,002,000
2020	44,282,000	1,300,000
	$122,150,000	$3,276,000

For state purposes, net operating loss carryforwards of approximately $116,042,000 expire in the years 2001 through 2004. State research and development tax credit carryforwards are approximately $300,000.

10. License Agreements

Angiomax

In March 1997, the Company entered into an agreement with Biogen, Inc. for the license of the anticoagulant pharmaceutical, bivalirudin (now known as Angiomax). Under the terms of the agreement, the Company acquired exclusive worldwide rights to the technology, patents, trademarks, inventories and know-how related to Angiomax. In exchange for the license, the Company paid $2 million on the closing date and is obligated to pay up to an additional $8 million upon reaching certain Angiomax sales milestones, including the first commercial sale of Angiomax for the treatment of AMI in the United States and Europe. In addition, the Company shall pay royalties on future sales of Angiomax and on any sublicense royalties earned until the later of (1) 12 years after the date of the first commercial sale of the product in a country or (2) the date in which the product or its manufacture, use or sale is no longer covered by a valid claim of the licensed patent right in such country. The agreement also stipulates that the Company use commercially reasonable efforts to meet certain milestones related to the development and commercialization of Angiomax, including expending at least $20 million for certain development and commercialization activities, which we met in 1998. The license and rights under the agreement remain in force until our obligation to pay royalties ceases. Either party may terminate for material breach, and the Company may terminate the agreement for any reason upon 90 days prior written notice. During December 2000, the Company received approval from the U.S. Food and Drug Administration (FDA) for the sale of Angiomax for certain indications.

CTV-05

In August 1999, the Company entered into an agreement with Gynelogix, Inc. for the license of the biotherapeutic agent CTV-05, a strain of human lactobacillus currently under clinical investigation for applications in the areas of urogenital and reproductive health. Under the terms of the agreement, the Company acquired exclusive worldwide rights to the patents and know-how related to CTV-05. In exchange for the license, the Company has paid $400,000 and is obligated to pay an additional $100,000 upon reaching certain development and regulatory milestones and to fund agreed-upon operational costs of Gynelogix related to the development of CTV-05 on a monthly basis subject to a limitation of $50,000 per month. In addition, the Company is obligated to pay royalties on future sales of CTV-05 and on any sublicense royalties

earned until the date on which the product is no longer covered by a valid claim of the licensed patent rights in a country. The agreement also stipulates that the Company must use commercially reasonable efforts in pursuing the development, commercialization and marketing of CTV-05 to maintain the license. The license and rights under the agreement remain in force until our obligation to pay royalties ceases. Either party may terminate the agreement for material breach, and may terminate the agreement for any reason upon 60 days prior written notice.

IS-159

In July 1998, the Company entered into an agreement with Immunotech S.A. for the license of the pharmaceutical IS-159 for the treatment of acute migraine headache. Under the terms of the agreement, the Company acquired exclusive worldwide rights to the patents and know-how related to IS-159. In exchange for the license, the Company paid $1 million on the closing date and is obligated to pay up to an additional $4.5 million upon reaching certain development and regulatory milestones. In addition, the Company shall pay royalties on future sales of IS-159 and on any sublicense royalties earned until the date on which the product is no longer covered by a valid claim of the licensed patent rights in a country. The agreement also stipulates that the Company must use commercially reasonable efforts in pursuing the development, commercialization and marketing of IS-159 and meet certain development and regulatory milestones to maintain the license. The licenses and rights under the agreement remain in force until the Company's obligation to pay royalties ceases. Either party may terminate the agreement for material breach, and the Company may terminate the agreement for any reason upon 60 days prior written notice.

11. Strategic Alliances

UCB

In December 1999, the Company entered into a commercial supply agreement with UCB-Bioproducts S.A. ("UCB") to develop and supply Angiomax bulk drug substance. Under the terms of the agreement, UCB Bioproducts is also responsible for developing the Chemilog process in coordination with the Company and obtaining regulatory approval for use of the process. The Company has agreed to partially fund UCB Bioproducts' development activities. The funding is due upon the completion by UCB Bioproducts of development milestones. If UCB Bioproducts successfully completes each of these development milestones, the Company anticipates total development funding to be approximately $9.1 million. During 1999 and 2000, expenses incurred for such services were approximately $811,000 and $560,000, respectively, of which approximately $469,000 and $789,000 was recorded in accounts payable and accrued expenses at December 31, 1999 and 2000, respectively. In addition, the Company has agreed to purchase Angiomax bulk drug product exclusively from UCB Bioproducts at agreed upon prices for a period of seven years from the date of the first commercial sale of Angiomax produced under the Chemilog process. Following the expiration of the agreement, or if the Company terminates the agreement prior to its expiration, UCB Bioproducts will transfer the development technology to the Company. If the Company engages a third party to manufacture Angiomax using this technology, the Company will be obligated to pay UCB Bioproducts a royalty based on the amount paid by the Company to the third-party manufacturer.

During 1999, the Company placed an order with UCB Bioproducts for the manufacture of Angiomax bulk drug product. Manufacture of $14.2 million of this material was completed in 2000, of which $12.2 million was expensed during the period. All costs associated with the manufacture of Angiomax bulk drug product and finished products to which title was transferred to the Company prior to the date of FDA approval of Angiomax were expensed as research and development. The Company recorded Angiomax bulk drug product to which title transferred after the date of FDA approval of Angiomax as inventory. In November 2000, the Company placed additional orders with UCB Bioproducts for the manufacture of Angiomax bulk drug product. Under the terms of these orders, the Company is scheduled to take title to material and become obligated to make payments totaling approximately $24.0 million in fiscal 2001 and early fiscal 2002.

Lonza

In September 1997, the Company entered into an agreement with Lonza AG ("Lonza") for the development of a new commercial manufacturing process for an advanced intermediate compound used in the manufacturing of Angiomax ("Angiomax intermediate"). In November 1998, the Company entered into an additional agreement with Lonza for the engineering, procurement and installation of equipment for the initial manufacturing of the Angiomax intermediate using the new process. The agreement also contemplated the purchase of the Angiomax intermediate from Lonza at specified prices for an anticipated two-year period following initial production and stipulated the basic principles of a long-term commercial supply contract. In January 2000, the Company notified Lonza of its intention to terminate the agreement. As a result of the termination, the Company retained certain ownership rights to intellectual property and was responsible for reimbursement of all costs incurred under the terms of the agreement through the date of notice. Approximately

$1,572,000 was recorded in accounts payable and accrued expenses at December 31, 1999. There was no outstanding obligation to Lonza at December 31, 2000.

PharmaBio

In August 1996, the Company entered into a strategic alliance with one of its stockholders, PharmaBio Development Inc. ("PharmaBio"), a wholly-owned subsidiary of Quintiles Transnational Corporation ("Quintiles"). Under the terms of the strategic alliance agreement, PharmaBio and any of its affiliates who work on the Company's projects will, at no cost to the Company, review and evaluate, jointly with the Company, development programs designed by the Company related to potential or actual product acquisitions. The purpose of this collaboration is to optimize the duration, cost, specifications and quality aspects of such programs. PharmaBio and its affiliates have also agreed to perform other services with respect to our products, including clinical and non-clinical development services, project management, project implementation, pharmacoeconomic services, regulatory affairs and post marketing surveillance services and statistical, statistical programming, data processing and data management services pursuant to work orders agreed to by the Company and PharmaBio from time to time. Through December 31, 2000, the Company has entered in approximately 40 work orders with PharmaBio and has paid PharmaBio a total of $10.9 million. During 1998, 1999 and 2000, expenses incurred for such services were approximately $1.7 million, $3.7 million and $2.3 million, respectively, of which approximately $1.2 million and $813,000 was recorded in accounts payable and accrued expenses at December 31, 1999 and 2000, respectively. At December 31, 2000, the Company had open orders with PharmaBio for such services that reflect estimated aggregate future payments of approximately $3.4 million.

Innovex

In January 1997, the Company entered into a consulting agreement with Innovex, Inc. ("Innovex"), a subsidiary of Quintiles, which was subsequently superceded by a consulting agreement executed with Innovex in December 1998. Pursuant to the terms of the agreement, Innovex provides the Company with consulting services with respect to pharmaceutical marketing and sales. Since December 1997, the Company has also entered into various clinical services agreements with Innovex pursuant to which Innovex has provided project management, clinical monitoring, site management, medical monitoring, regulatory affairs, data management and quality assurance services with respect to clinical trials of Angiomax. None of the clinical services agreements is currently outstanding. Through December 31, 2000 the Company has paid Innovex $1.8 million under these agreements.

In December 2000, the Company signed a master services agreement and a work order with Innovex under which Innovex agreed to provide contract sales, marketing and commercialization services relating to Angiomax. Under the master services agreement, Innovex may provide additional services unrelated to Angiomax pursuant to work orders entered into from time to time. Under the master services agreement and the Angiomax work order, Innovex will provide the Angiomax sales force of 52 representatives, a sales territory management system and operational support for the launch of Angiomax. The Company will provide the marketing plan and marketing materials for the sales force and other sales and marketing support and direction for the sales force. For Innovex services, the Company has agreed to a daily fee for each day worked by the members of the sales force. The Company will reimburse Innovex for expenses incurred in providing the services and for the incentive compensation paid to the sales force of Innovex. The Company has the right to terminate the work order and the master services agreement at any time upon 90 days prior written notice. The Company may hire members of the sales force, although the Company may incur additional fees to Innovex. Through December 31, 2000, the Company had paid Innovex $1.1 million for its services under the master services agreement and work order. Total fees for 2001 under this agreement are estimated to be approximately $8.2 million subject to adjustments in the size of the sales force and other commercial factors.

During 1998, 1999 and 2000, expenses incurred for services provided by Innovex were approximately $943,000, $616,000 and $1.7 million, respectively, of which approximately $102,000, $280,000 and $440,000 were recorded in accounts payable and accrued expenses at December 31, 1998, 1999 and 2000, respectively.

Stack Pharmaceuticals

In April 2000, the Company entered into an agreement with Stack Pharmaceuticals, an entity controlled by David Stack, one of the Company's senior vice presidents, which was amended in August 2000. Pursuant to the terms of this agreement, as amended, Stack Pharmaceuticals will perform infrastructure services for us, which includes providing office facilities, equipment and supplies for the Company's employees based in New Jersey, and such consulting, advisory and related services for the Company as may be agreed upon from time to time. For the infrastructure services, the Company has agreed to pay Stack Pharmaceuticals a service fee of $20,100 per month. The term of this agreement continues until April 1, 2001, but either party may terminate it earlier upon 90 days prior written notice. From January 2000 through March 2000, Stack Pharmaceuticals provided the Company with consulting

services under a consulting agreement that expired on March 31, 2000. Through December 31, 2000, the Company had paid Stack Pharmaceuticals $407,000 under these agreements. The was no outstanding obligation to Stack Pharmaceuticals at December 31, 2000.

12. Commitments and Contingencies

The Company leases its facilities in Cambridge, Massachusetts and Parsippany, New Jersey and certain office furniture and equipment at those facilities under operating leases. The leases for the Cambridge and Parsippany facilities expire in August 2003 and September 2005, respectively. Future annual minimum payments under all non-cancelable operating leases are $590,000, $712,000, $429,000, $210,000 and $160,000 in 2001, 2002, 2003, 2004 and 2005, respectively. Rent expense was approximately $326,000, $442,000 and $504,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

The Company is involved in ordinary and routine matters and litigation incidental to its business. There are no such matters pending that the Company expects to be material in relation to its financial condition or results of operations.

13. Employee Benefit Plan

401(k) Plan

The Company has an employee savings and retirement plan which is qualified under Section 401 of the Internal Revenue Code. Our employees may elect to reduce their current compensation by up to the statutorily prescribed limit and have the amount of such reduction contributed to the 401(k) plan. The Company may make matching or additional contributions to the 401(k) plan in amounts to be determined annually by the board of directors. The Company has not made any matching or additional contributions to date.

14. Selected Quarterly Financial Data (Unaudited)

The following table presents selected quarterly financial data for the years ended December 31, 1999 and 2000.

	Three Months Ended							
	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999	**Mar. 31, 2000**	**June 30, 2000**	**Sept. 30, 2000**	**Dec. 31, 2000**
	In thousands, except per share data							
Total operating expenses	$ 8,483	$ 11,715	$ 9,000	$ 6,155	**$ 11,840**	**$ 8,706**	**$ 10,297**	**$ 23,763**
Net loss	(8,137)	(11,369)	(8,877)	(6,330)	**(19,243)**	**(20,408)**	**(9,459)**	**(22,182)**
Net loss attributable to common stockholders	(9,573)	(12,806)	(10,375)	(7,852)	**(20,773)**	**(47,596)**	**(11,083)**	**(22,182)**
Basic and diluted net loss attributable to common stockholders per common share	$(21.09)	$ (25.62)	$ (19.21)	$(13.45)	**$ (32.91)**	**$ (68.65)**	**$ (0.67)**	**$ (0.74)**
Pro forma basic and diluted net loss attributable to common stockholders per common share	(0.48)	(0.66)	(0.49)	(0.33)	**(0.55)**	**(0.38)**	**(0.34)**	**(0.74)**

The net loss for each quarter of 2000 was higher compared to the corresponding quarter of 1999. There were higher research and development costs in every quarter of 2000 associated with increased enrollment rates in the HERO-2 trial in AMI, in the third and fourth quarters of 2000 related to the initiation of the REPLACE clinical trial program in angioplasty, and in the first and fourth quarters of 2000 in connection with the receipt of Angiomax bulk drug substance to which title was taken prior to FDA approval. These increases in research and development costs were partly offset by lower development costs in all quarters of 2000 related to the discontinuation of the semilog manufacturing program and reduction in the IS-159 activities. Higher selling, general and administrative expenses associated with the commercial launch of Angiomax also contributed to the higher net loss in the last three quarters of 2000 as compared to the corresponding quarters of 1999. Higher interest expense in the first two quarters of 2000 resulted from the amortization of the discount on convertible notes issued in October 1999 and March 2000. In the second quarter of 2000, we recorded a dividend on the beneficial conversion associated with the issuance of convertible preferred stock in May 2000. In addition, in all the quarters of 2000, amortization of deferred compensation on the grant of stock options also contributed to the higher 2000 quarterly losses.

Report of Independent Auditors

Board of Directors and Stockholders
The Medicines Company

We have audited the accompanying consolidated balance sheets of The Medicines Company (a company in the development stage) as of December 31, 1999 and 2000, and the related consolidated statements of operations, redeemable preferred stock and stockholders' equity/(deficit), and cash flows, for each of the three years in the period ending December 31, 2000, and for the period July 31, 1996 (date of inception) to December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Medicines Company at December 31, 1999 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, and for the period July 31, 1996 (date of inception) to December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Boston, Massachusetts
February 13, 2001,
except for the eighth paragraph of Note 2,
as to which the date is February 20, 2001

Corporate Information

Officers and Directors

Clive A. Meanwell, M.D., Ph.D.
Chief Executive Officer, President and Director

Peyton J. Marshall, Ph.D.
Senior Vice President and Chief Financial Officer

Glenn P. Sblendorio, M.B.A.
Senior Vice President

David M. Stack
Senior Vice President

John M. Nystrom, Ph.D.
Vice President and Chief Technical Officer

David C. Mitchell
Vice President

Frederick K. Paster, M.Sc., M.B.A.
Vice President

Thomas P. Quinn
Vice President

John D. Richards, D.Phil.
Vice President

Fred M. Ryan, M.B.A.
Vice President

John W. Villiger, Ph.D.
Vice President

Leonard Bell, M.D.
President and Chief Executive Officer
Alexion Pharmaceuticals, Inc.

David B. Gillings, Ph.D.
Chairman and Chief Executive Officer
Quintiles Transnational Corp.

Stewart J. Hen, M.B.A., M.S.
Vice President
E.M. Warburg, Pincus & Co., LLC

Anders D. Hove, M.D., M.Sc., M.B.A.
Member
The Bellevue Group

M. Fazle Husain, M.B.A.
General Partner
Morgan Stanley Venture Partners, L.P.

T. Scott Johnson, M.D.
Partner and Co-Founder
JSB Partners L.P.

Armin M. Kessler, Dh.c.
Former Chief Operating Officer and
Head of the Pharmaceutical Division

Nicholas J. Lowcock, M.B.A.
Managing Director
E.M. Warburg, Pincus & Co., LLC

James E. Thomas, M.Sc.
Managing Partner
Thomas, McNerney & Partners, LLC

Corporate Offices

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Stock Listing

The Medicines Company common stock is traded on the Nasdaq National Market® under the symbol "MDCO."

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(800) 288-9541

Independent Auditors

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116
(617) 266-2000

Corporate Counsel

Hale and Dorr LLP
60 State Street
Boston, MA 02109

Annual Meeting

The Annual Meeting of Stockholders will take place on May 31, 2001 at the offices of Hale and Dorr LLP.

A formal notice of the meeting, along with a proxy statement and a form of proxy, is being mailed to each stockholder with this annual report.

Investor Relations

Call (617) 225-9099 or email
investor.relations@themedco.com

Form 10-K

This annual report contains the 2000 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Upon request, The Medicines Company will provide without charge to each stockholder of record additional copies of the Company's Annual Report on Form 10-K. Please send your request to:

Investor Relations
The Medicines Company
One Cambridge Center
Cambridge, MA 02142
(617) 225-9099

Stock Information

The total number of registered holders of The Medicines Company's common stock as of April 9, 2001 was 104. The Company believes the number of beneficial stockholders is in excess of 2,800.

The following table sets forth, for the periods indicated, the high and low intraday sales prices per share, as quoted by Nasdaq, of the Company's common stock.

2000	HIGH	LOW
Third Quarter (since August 8, 2000)	$35.38	$16.50
Fourth Quarter	$34.75	$17.13
2001		
First Quarter	$20.48	$ 8.75

The Medicines Company has never declared or paid cash dividends on the Company's common stock. The Company anticipates that it will retain all future earnings, if any, for use in the expansion and operation of its business and does not anticipate paying cash dividends in the foreseeable future.

*When used in this report, the words "believes," "anticipates," "plans," "expects," "intends," "may" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by the forward-looking statements contained in this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to review carefully and consider the various disclosures made by the Company that attempt to advise interested parties of the factors that affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Which May Affect Future Results" in this report, as well as the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

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