DISCOVERY PARTNERS INTERNATIONAL INC
Form S-3
March 10, 2004

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As filed with the Securities and Exchange Commission on March 10, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

DISCOVERY PARTNERS INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**33-0655706**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

9640 Towne Centre Drive
San Diego, CA 92121
(858) 455-8600

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Craig Kussman
Chief Financial Officer
Discovery Partners International, Inc.
9640 Towne Centre Drive
San Diego, CA 92121
(858) 455-8600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be registered	Amount to Be registered(1)	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration fee
Common Stock, $.001 par value per share, including related rights to purchase Series A Junior Participating Preferred Stock	8,305,300	$6.10	$50,662,330	$6,418.92

(1) Of the 8,305,300 shares, 7,222,000 are being registered for resale by one of the registrant's stockholders and the remaining 1,083,300 shares are being registered for sale by the registrant in the event the underwriters exercise their over-allotment option in connection with the offering of the selling stockholder's shares. Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) of the Securities Act of 1933. The price per share and aggregate offering price are based upon the average of the high and low sales price of the registrant's common stock on March 3, 2004 as reported on the Nasdaq National Market.

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

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

PROSPECTUS (Subject to Completion)

Dated , 2004

7,222,000 Shares

Discovery Partners International, Inc.

Common Stock

We are selling no shares of common stock unless the underwriters exercise the over-allotment option referred to below. The selling stockholder, Axys Pharmaceuticals, Inc., is offering 7,222,000 shares of common stock. Our common shares are listed on the Nasdaq National Market under the symbol "DPII." On March 9, 2004, the last reported sale price of our common stock was $6.25 per share.

Our business and an investment in our common shares involve significant risks. These risks are described under the caption "Risk Factors" beginning on page 8 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	**$**	**$**
Underwriting discounts and commissions	**$**	**$**
Proceeds, before expenses, to selling stockholder	**$**	**$**
Proceeds, before expenses, to us	**$**	**$**

The underwriters may also purchase up to 1,083,300 shares of our common stock from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments. We will not receive any of the proceeds of the sale of shares by the selling stockholder, Axys Pharmaceuticals, Inc.

The underwriters expect to deliver the shares in New York, New York on , 2004.

SG Cowen

Merriman Curhan Ford & Co.

Roth Capital Partners

, 2004

TABLE OF CONTENTS

You should rely only on the information contained or incorporated by reference in this prospectus. Neither we nor Axys Pharmaceuticals, the selling stockholder, have authorized anyone to provide you with information that is different. We and Axys Pharmaceuticals are offering to sell and seeking offers to buy shares of our common stock only in jurisdictions where offers are permitted. The information contained or incorporated by reference in this prospectus is accurate only as of the date of this prospectus or the date of the applicable information that is incorporated by reference, regardless of the time of delivery of this prospectus or of any sale of our common stock.

We own a registered trademark and service mark in IRORI®. We also own the following trademarks among others: MicroKan®, Synthesis Manager®, Clevap®, NanoKan® and Xenometrix®. The following trademarks, among others, are currently pending registration: X-Kan ,

MiniKan , µARCS , ChemCard and Crystal Farm .

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements and notes thereto appearing elsewhere or incorporated by reference in this prospectus. Before you decide to invest in our common stock, you should carefully read the entire prospectus, and the documents incorporated by reference in the prospectus, including the risk factors and the other more detailed information and financial statements and related notes.

Offering Background

Under the terms of an investors' rights agreement entered into in April 2000 to which we and Axys Pharmaceuticals are parties, Axys Pharmaceuticals has the right to demand that we prepare and file with the Securities and Exchange Commission, or SEC, a registration statement covering the resale of any or all of the shares of our common stock issued to Axys Pharmaceuticals in April 2000 in connection with our acquisition of Axys Advanced Technologies, or AAT, along with shares issuable upon exercise of a warrant that we issued to Axys Pharmaceuticals at that time. Axys Pharmaceuticals has exercised its demand registration rights under the investors' rights agreement and requested that we register for resale in a firmly underwritten offering 7,222,000 of the shares of our common stock that we issued to Axys Pharmaceuticals in connection with the AAT acquisition. We have filed the registration statement of which this prospectus is a part to meet our obligations under the investors' rights agreement. The 7,222,000 shares being registered do not include the 200,000 shares of our common stock issuable to Axys Pharmaceuticals upon exercise of the warrant referenced above, which has an exercise price of $8.00 per share and expires in May 2005. We have registered 1,083,300 shares of our common stock under the registration statement of which this prospectus is a part for sale by us only to cover over-allotments, if any, in connection with this offering. We will not receive any proceeds of the sale of shares by Axys Pharmaceuticals.

In November 2001, Axys Pharmaceuticals was acquired by the Celera Genomics Group of Applera Corporation and is now a wholly-owned subsidiary of Applera. Applera is a publicly-traded company with shares listed on the New York Stock Exchange. Axys Pharmaceuticals has informed us that, prior to its acquisition by Applera, it had granted options to purchase 337,500 of the shares of our common stock it held to seven of its employees, including two individuals who are now members of our board of directors, Mr. John P. Walker and Michael C. Venuti, Ph.D. In order to permit Axys Pharmaceuticals to deliver unencumbered shares to the underwriters in connection with this offering, Applera, on behalf of Axys Pharmaceuticals, has agreed to repurchase these options from the option holders, including Mr. Walker and Dr. Venuti, immediately prior to the closing of this offering, in exchange for cash equal to the number of shares covered by the applicable option multiplied by the difference between the per share proceeds to Axys Pharmaceuticals in this offering, net of underwriting discounts and commissions, and the per share exercise price of the option. Mr. Walker and Dr. Venuti are entering into these arrangements with Applera relating to these options solely to facilitate Axys Pharmaceuticals' sale of shares in this offering, and have not influenced or prompted Applera to offer these arrangements to them. Under these agreements, Mr. Walker's and Dr. Venuti's applicable options will only be bought out if the sale of shares by Axys Pharmaceuticals contemplated by this prospectus closes, and in that event, Mr. Walker and Dr. Venuti each will report a change in beneficial ownership of shares of our common stock in accordance with applicable SEC rules and regulations.

The Company

We collaborate with pharmaceutical and biopharmaceutical companies to advance their drug discovery process through our integrated and highly efficient collection of drug discovery technologies, products and services focused from the point immediately following identification of a drug target through when a drug candidate is ready for pre-clinical studies. Despite numerous technological advances in combinatorial chemistry, high-throughput screening, genomics and proteomics, the process of drug discovery remains slow, expensive and often unsuccessful. In order to make the drug discovery process faster, less expensive and more likely to generate a drug candidate, we offer products and services such as assays, chemical compound synthesis and automation tools, design and synthesis of proprietary libraries of compounds, high-throughput screening, lead optimization, drug discovery informatics and toxicology. These products and services can be provided individually or as an integrated solution, depending on our customers' requirements. We believe our depth of knowledge and experience, and our range of product offerings, across these areas of drug discovery differentiates us from our competitors. During 2003, we generated revenue from approximately 130 customers worldwide, including Pfizer, Merck, Novartis, Inspire Pharmaceuticals and GlaxoSmithKline.

Industry Background

The drug discovery process is undergoing fundamental changes as a result of advances in genomics and proteomics, which are the studies of genes and the proteins they encode. Prior to these advances, pharmaceutical and biopharmaceutical companies addressed fewer than 500 identified drug targets in the development of drugs. Industry experts predict that the application of genomics and proteomics will lead to the identification of thousands of new drug targets.

The abundant data generated as a result of the genomics and proteomics revolution has increased the demand for drug discovery products and services. Once a company has identified a potential drug target, it must still devote significant time and resources to validate the target's role in the disease process and screening libraries of chemical compounds against the target to identify potential drug candidates, which must be optimized further before commencement of human testing. The Pharmaceutical Research and Manufacturers of America reported that its members alone spent an estimated $32 billion worldwide in research and development in 2002, with approximately 25% of this total amount being spent on the stages of drug discovery in which we focus.

Our Products and Services

We provide products and services designed to make the drug discovery process faster, less expensive and more likely to generate a drug candidate. We bring together a significant combination of drug discovery expertise, technology and services to meet the needs of the pharmaceutical and biopharmaceutical industries. We do not discover or develop drugs for our own account and do not compete with our customers. We believe that an integrated approach to drug discovery is critical for the creation of higher quality drugs and we, therefore, offer products and services in many functional disciplines of the drug discovery process.

Assays

We design and conduct assays, or tests, that generate information about the effect of chemical compounds on a drug target. We believe that our assays help our customers better select drug candidates before moving to the more costly stages of pre-clinical and clinical testing. We develop our assays through our team of scientists who are experienced in working with major disease target classes in a number of significant therapeutic areas, such as cardiovascular, neurology, oncology and ophthalmology. We acquired the ability to provide assay development services through our acquisition of Discovery Technologies, Ltd. in 1999 and further internal development.

Automation Products and Services

We sell, and provide access to, our proprietary instruments and consumables that automate the process of making collections, or libraries, of chemical compounds. Our instruments are based on a patented core technology, which enables our customers to generate large collections of compounds with efficiency and speed.

Our current products that are based on proprietary technology were developed internally and include the NanoKan System, a high throughput chemistry system that can generate up to one million discrete compounds per year, the AutoSort System, an automated chemistry system and a manual chemistry system. All of these systems include hardware and software platforms and use consumables that our customers purchase for every compound that is synthesized using these automation systems. We also offer Crystal Farm, our proprietary self-contained crystallization and imaging system that provides automated high throughput incubation and imaging of thousands of protein crystallization experiments.

Proprietary Libraries of Compounds

As a result of internal development and our acquisitions of AAT in 2000 and Systems Integration Drug Discovery Company, or SIDDCO, in 2001, we are able to offer a broad range of highly purified compound libraries that can be screened using assays. After compounds are screened, promising compounds, or hits, are then improved, or optimized, to generate drug candidates, or leads. Our approach to generating compound libraries provides the following advantages:

Purity: A high degree of purity is important to minimize false positives during screening. We can deliver compounds that are greater than the current industry standard of 90% pure, depending on customer specifications;

Diversity: Each discovery library of approximately 1,000 to 5,000 drug-like compounds is designed to contain a set of highly diverse compounds using our chemical mapping and differentiation software;

Ease of optimization: The individual chemistries for each library are highly validated and characterized. This allows rapid generation of focused libraries around hits and rapid follow-up and modification by medicinal chemistry programs; and

Re-supply and reproducibility: Our synthesis approaches produce large quantities of chemical compounds that allow rapid and cost effective restocking of customers' supplies. Our highly validated chemistries allow us or our customers to re-synthesize larger quantities on demand.

Screening

We offer high throughput screening services through an experienced staff of scientists located at our facility near Basel, Switzerland. We also offer our customers access to chemical compounds from many of the world's leading compound suppliers as well as a significant collection of internally developed compounds.

To improve the speed and cost effectiveness of the screening process, we have exclusively licensed from Abbott Laboratories and further developed μARCS, a next-generation high throughput screening technology. This platform provides rapid and cost effective, high performance, high throughput screening, while supporting a very broad range of biochemical and cellular assays. We initially acquired our ability to offer these screening services in our acquisition of Discovery Technologies, Ltd. in 1999 and have added to our capabilities through further internal development.

Hits-to-Optimized-Leads

Through a combination of internal development and our acquisitions of SIDDCO in 2001, Structural Proteomics in 2000, Xenometrix in 2001 and AAT in 2000, we have developed products and services to advance early stage screening hits to optimized drug leads. These products and services include the following:

Custom focused libraries. In addition to our collection of proprietary libraries, we design and produce custom, focused libraries based upon hits identified from screening. These hits may be from our compound libraries, our customer's internal compound collection or even from another compound library supplier.

Medicinal chemistry. We also provide a wide range of medicinal chemistry and other lead optimization services. This includes the synthesis of compounds that modify the original hit for improved potency, selectivity and other pharmaceutical characteristics. In some cases we provide medicinal chemistry services in conjunction with our computational drug discovery efforts to design and construct small libraries of compounds to act on specific targets that have known chemical structures.

Drug Discovery Informatics; ADME and Toxicology

In connection with our acquisitions in 2000 of AAT and Structural Proteomics, we acquired and we are further developing computational tools that we believe will allow us to substantially increase our knowledge of the characteristics of targets and leads, and their interaction with certain molecules. We believe these tools could potentially be applied throughout the drug discovery process to significantly reduce the time and cost of developing a drug. We currently have computer algorithms that allow us to design libraries of compounds with high diversity, thereby increasing the likelihood of finding hits during screening. We have developed novel algorithms to aid in the understanding and utilization of the data resulting from high throughput screening experiments. We have also developed a proprietary analysis tool which we believe will allow us to use screening data to identify the most likely type of drug target with which a compound may bind or interact. We use this tool to design highly effective compound libraries for our collaborators and customers.

We expect to further use our computational tools and screening data to help predict absorption, distribution, metabolism, and excretion, or ADME, and toxicological reactions to classes of compounds. This could allow our customers to avoid spending money and time on hits and leads that will ultimately fail due to their unfavorable ADME and toxicological characteristics.

Integrated Drug Discovery Programs

We offer an integrated collaborative drug discovery program that provides our customers with many of the tools and capabilities needed to find and advance leads to pre-clinical candidates. Through our collaborations we provide integrated access to our computational design and

analysis, chemistry, and biology capabilities for the purpose of developing a pre-clinical lead for our customer's target. Each integrated drug discovery program is customized to increase the likelihood of success. We currently are conducting integrated drug discovery programs for Inspire Pharmaceuticals, Inc. and Theracos, Inc.

Our Strategy

Our strategy is to become the leading provider of a complete, integrated and highly efficient drug discovery platform designed to overcome many of the limitations associated with the slow and

expensive traditional drug discovery process. Accordingly, we intend to implement our strategy by pursuing the following objectives:

Broaden and deepen our technology through internal invention and acquisition. We have assembled our current suite of advanced technologies, products and services both through internal invention and acquisition. We intend to continue to invest in internal research and development and to acquire and integrate innovative products and services in order to stay at the forefront of drug discovery technology.

Expand customer relationships through integration of products and services. We are using existing relationships with customers in individual areas of our business to sell products and services in multiple areas of drug discovery. We believe that our customers can best take advantage of the time and cost efficiencies of our products and services in integrated combinations.

Gain wider penetration of the biopharmaceutical industry. We will continue to focus on providing drug discovery products and services to the biopharmaceutical market. We have a skilled team of business development and marketing professionals targeting biopharmaceutical customers worldwide. We believe that as the biopharmaceutical industry continues to mature and generate additional drugs, the resources dedicated to drug discovery and development will increase and we believe that this may provide an opportunity to provide additional products and services to biopharmaceutical companies.

Continue to generate multiple revenue streams and diversify our revenue base. We sell a variety of products and services and we believe that our multiple revenue streams reduce the potential negative consequences to us if any one of our product or service areas ceases to be productive. We expect to continue to sell our products and services to our customers primarily for current revenue, but when appropriate, we may structure financial terms to include milestone payments or royalties based on the success of the ultimate commercialized product. It is also our intention to grow our business and expand our customer base, which would reduce our dependency on Pfizer, who accounted for 62% of total revenue in 2003.

Continue to expand our knowledge base and streamline the drug discovery process. Because of the large number and diversity of our customers, we generate and are exposed to large amounts of highly useful information about the drug discovery process and about the general interaction between types of chemistries and types of drug targets. We believe this knowledge will enable us to streamline the drug discovery process and to create new revenue opportunities.

Corporate Information

Our principal executive offices are located at 9640 Towne Centre Drive, San Diego, California 92121, and our telephone number is (858) 455-8600. Our website is located at www.discoverypartners.com. The contents of our website and any information that can be accessed through our website are not part of this prospectus.

The Offering

Selling stockholder	Axys Pharmaceuticals, Inc.
Common stock offered hereby by selling stockholder	7,222,000 shares
Common stock to be outstanding after the offering	24,641,607 shares

Use of proceeds	We will not receive any of the proceeds from the offering, unless the underwriters exercise their over-allotment option. In the event the underwriters exercise their over-allotment option, we will use the proceeds for general corporate purposes as further described in "Use of Proceeds."
Symbol	DPII

The share amounts in this table are based on shares outstanding as of March 4, 2004. The number of shares outstanding will not change as a result of this offering, unless the underwriters exercise their over-allotment option. This table excludes:

- 3,562,745 shares of common stock issuable upon the exercise of options outstanding at a weighted average exercise price of $5.45 per share;
- 200,000 shares of common stock issuable upon the exercise of a warrant held by the selling stockholder at an exercise price of $8.00 per share; and
- 1,812,211 additional shares of common stock available for future grant under our 2000 Stock Incentive Plan and Employee Stock Purchase Plan.

Except as otherwise noted, all information in this prospectus assumes the underwriters do not exercise their over-allotment option to purchase from us up to 1,083,300 shares.

Summary Consolidated Financial Data
(in thousands, except per share data)

	Years Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
Consolidated Statement of Operations Data:					
Revenues	$ 49,827	$ 41,315	$ 41,134	$ 36,264	$ 13,076
Cost of revenues and additional charges	31,669	35,487	24,857	18,343	8,235
Operating expenses	18,906	70,207	30,923	31,103	8,288
Total expenses	50,575	105,694	55,780	49,446	16,523
Loss from operations	(748)	(64,379)	(14,646)	(13,182)	(3,447)
Other income	1,807	2,267	3,498	1,485	77
Net income (loss)	$ 1,059	$ (62,112)	$ (11,148)	$ (11,697)	$ (3,370)
Net income (loss) per share, basic	$ 0.04	$ (2.55)	$ (0.46)	$ (0.89)	$ (3.00)

	Years Ended December 31,				
Net income (loss) per share, diluted	$ 0.04	$ (2.55)	$ (0.46)	$ (0.89)	$ (3.00)
Shares used in calculating net income (loss) per share, basic(1)	24,344	24,315	24,016	13,177	1,125
Shares used in calculating net income (loss) per share, diluted(1)	25,077	24,315	24,016	13,177	1,125

(1) Please see note 2 of the notes to our consolidated financial statements incorporated by reference in this prospectus for an explanation of the determination of the number of shares used in computing per share data.

	As of December 31, 2003
	(in thousands)
Selected Consolidated Balance Sheet Data:	
Cash, cash equivalents and short-term investments	$ 72,574
Working capital	79,341
Total assets	109,184
Long-term obligations, less current portion	
Redeemable preferred stock	
Total stockholders' equity	98,247

RISK FACTORS

In addition to the other information contained herein, you should carefully consider the following risk factors in evaluating our company.

We derive a significant percentage of our revenues from a single customer. If this customer relationship terminated, we could have difficulty finding customers that would purchase our products and services in sufficient amounts to replace the capacity resulting from the loss of this significant customer.

We anticipate that a significant portion of our revenues for 2004 and 2005 will be derived from the chemistry collaboration we entered into with Pfizer originally in December 2001. In February 2004, the agreement with Pfizer was amended. Under this agreement, Pfizer has a contractual right to terminate the contract, with or without cause, upon six months notice beginning on January 5, 2005. Either party may also terminate the agreement upon the material, uncured breach of the other party, and Pfizer may terminate the agreement if we are acquired by a third party or in the event of a change in control of our Company. During 2003, revenue from Pfizer represented 62% of our total revenue. If our relationship with Pfizer or our contracts with other customers to whom we provide significant products or services are terminated, we will have substantial capacity available until we are able to find new customers for our products and services to utilize that capacity. We may be delayed in entering or not able to enter into contracts with new customers to utilize any available capacity. We will continue to bear the costs of that capacity until we are able to enter into contracts with customers for those products or services. Revenues with respect to those products and services may be delayed or we may not recognize revenues at all to the extent we are delayed in entering or not able to enter into contracts with new customers to utilize available capacity.

The drug discovery industry is highly competitive and subject to technological change, and we may not have the resources necessary to compete successfully.

We compete with companies in the United States and abroad that engage in the development and production of drug discovery products and services. These competitors include companies engaged in the following areas of drug discovery:

Assay development and screening;

Combinatorial chemistry instruments;

Compound libraries and lead optimization;

Informatics; and

Gene profiling.

Academic institutions, governmental agencies and other research organizations also conduct research in areas in which we provide services, either on their own or through collaborative efforts. Also, substantially all of our pharmaceutical and biopharmaceutical company customers have internal departments that provide some or all of the products and services we sell, so these customers may have limited needs for our products and services. Many of our competitors have more experience and have access to greater financial, technical, research, marketing, sales, distribution, service and other resources than we do. We may not yet be large enough to achieve satisfactory market recognition or operating efficiencies, particularly in comparison to some competitors.

Moreover, the pharmaceutical and biopharmaceutical industries are characterized by continuous technological innovation. We anticipate that we will face increased competition in the future as new companies enter the market and our competitors make advanced technologies available. Technological advances or entirely different approaches that we or one or more of our competitors develop may

render our products, services and expertise obsolete or uneconomical. For example, advances in informatics and virtual screening may render some of our technologies, such as our large compound libraries, obsolete. Additionally, the existing approaches of our competitors or new approaches or technologies that our competitors develop may be more effective than those we develop. We may not be able to compete successfully with existing or future competitors.

In addition, due to improvements in global communications, combined with the supply of lower cost PhD level scientific talent, we face the growing threat of competition for our chemistry and computational chemistry services from low-cost offshore locations such as China, India and Eastern Europe.

If we do not generate adequate revenues from our µARCS investment in the near future, we may have to record significant impairment charges.

We have prepaid approximately $6.0 million to Abbott Laboratories for royalties related to the µARCS screening technology. This prepayment is carried on our balance sheet as prepaid royalty. If we are not successful in generating revenues in the future from this asset, we may be required to record impairment charges up to $6.0 million, which would materially hurt our profitability.

Our financial performance will depend on the prospects of the pharmaceutical and biopharmaceutical industries and the extent to which these industries engage outside parties to perform one or more aspects of their drug discovery process.

Our revenues depend to a large extent on research and development expenditures by the pharmaceutical and biopharmaceutical industries and companies in these industries outsourcing research and development projects. These expenditures are based on a wide variety of factors, including the resources available for purchasing research equipment, the spending priorities among various types of research and policies regarding expenditures during recessionary periods. In recent years, pharmaceutical companies have been attempting to contain spending on

drug discovery and many biotechnology companies have found it difficult to raise capital to fund drug discovery activities. Geopolitical uncertainty or general economic downturns in our customers' industries or any decrease in research and development expenditures could harm our operations, as could increased acceptance of management theories that counsel against outsourcing of critical business functions. Any decrease in drug discovery spending by pharmaceutical and biopharmaceutical companies could cause our revenues to decline and hurt our profitability.

The concentration of the pharmaceutical industry and the current trend toward increasing consolidation could hurt our business prospects.

The pharmaceutical customer segment of the market for our products and services is highly concentrated, with approximately 50 large pharmaceutical companies conducting drug discovery research. We have lost customers due to consolidation of pharmaceutical companies and the continuation of this trend may reduce the number of our current and potential customers even further. As a result, a small number of customers could account for a substantial portion of our revenues. In addition, because of the heavy concentration of the pharmaceutical industry and the relatively high cost of our systems, such as NanoKan, µARCS and Crystal Farm, we expect there will be only a limited number of potential buyers for these systems.

Additional risks associated with a concentrated customer base include:

larger companies may develop and utilize in-house technology and expertise rather than using our products and services; and

larger customers may negotiate price discounts or other terms for our products and services that are unfavorable to us.

We may not achieve or maintain profitability in the future.

We have incurred significant operating and net losses since our inception. As of December 31, 2003, we had an accumulated deficit of $103.6 million. Although we generated net income of $1.1 million in 2003, we had net losses of $62.1 million and $11.1 million for the years ended December 31, 2002 and 2001, respectively. We may also in the future incur operating and net losses and negative cash flow from operations. We did not achieve operating profitability until the third quarter of 2003 and we may not be able to achieve or maintain profitability in any quarter in the future. Moreover, if we do achieve profitability, the level of any profitability cannot be predicted and may vary significantly from quarter to quarter.

Our discontinuation of the development of chemical compounds to be sold out of inventory places more emphasis on integrated drug discovery collaborations, an area of higher risk and complexity.

As a result of our decision to limit access to our proprietary chemistry compounds and capabilities solely to companies that enter into integrated drug discovery, chemistry or screening and optimization collaborations with us, we now rely on this relatively complex form of customer engagement to generate revenue. As a result of the inherent complexity of such collaborations, we have an increased risk of being unable to reach agreement with the prospective customer for such collaborations or of structuring sub-optimal arrangements that fail to adequately compensate us for the risks inherent in such collaborations.

We may fail to expand customer relationships through the integration of products and services.

We may not be able to use existing relationships with customers in individual areas of our business to sell products and services in multiple areas of drug discovery. We may not be successful in selling our offerings in combination across the range of drug discovery disciplines we serve because integrated combinations of our products and services may not achieve time and cost efficiencies for our customers, especially our large pharmaceutical company customers. Biotechnology companies may desire our integrated offerings but are often not sufficiently capitalized to pay for these services. In addition, we may not succeed in further integrating our offerings. If we do not achieve integration of our products and services, we may not be able to take advantage of potential revenue opportunities and differentiate ourselves from competitors.

Our products, services and technologies may never help discover drugs that receive Food and Drug Administration approval, which may make it difficult for us to gain new business.

To date, we are not aware of any of our customers having used any of our drug discovery products, services or technologies to develop a drug that ultimately has been approved by the Food and Drug Administration, and our customers may never do so. Whether our customers use

our drug discovery products, services and technologies to develop any drugs that ultimately receive Food and Drug Administration approval will depend heavily on our scientific success and our customers' scientific success, as well as on our customers' ability to meet applicable Food and Drug Administration regulatory requirements. Our products, services and technologies may fail to assist our customers in achieving their drug discovery objectives, either on a timely basis or at all. For example, when our customers deliver proteins to us for assay development or chemistry library design ideas for chemical compound development and production, we may design assays or develop chemical compound libraries that fail to fully characterize the applicable protein's or compound's therapeutic potential, which could cause its further development to be delayed or abandoned. Additionally, our customers may not deliver to us proteins for assay development or chemistry library design ideas for chemical compound

development and production that yield promising lead compounds for further development. Our customers may also lack the resources or experience or be otherwise unable to comply with the Food and Drug Administration's clinical trial requirements. Certain of our competitors are able to claim that their drug discovery products or services have been used in developing drugs that received Food and Drug Administration approval. To the extent that potential customers consider demonstrated therapeutic success an important factor in selecting between us and our competitors, we may be competitively disadvantaged, which would negatively impact our ability to generate new business.

Our financial performance will depend on improved market conditions in the segments of the drug discovery and development process in which we participate.

The drug discovery and development process can be broadly separated into the following stages: Target identification; target validation; lead discovery; lead optimization; pre-clinical development; Investigational New Drug, or IND, filing; clinical trials, phases I-III; new drug application, or NDA; and post market surveillance. We currently participate in the areas of lead discovery and lead optimization. Based on current industry averages, the cost of acquiring a validated target plus the costs of lead discovery and lead optimization are greater than the expected proceeds of out-licensing a potential drug candidate during the pre-clinical phase of drug development. This is primarily due to the negative imbalance between the relatively high cost of obtaining pre-clinical drug candidates, the high failure rate of such pre-clinical candidates, and the relatively low demand for such pre-clinical candidates that exists at present. It is estimated that a positive expected return on investment is not obtained until a drug candidate has passed through phase II clinical trials, which requires a significant commitment of resources to attain. Therefore, many drug companies may be deterred from engaging in drug discovery unless they have the substantial financial resources necessary to fund the drug discovery process all the way through phase II clinical trials. Unless advances are made to either reduce the cost or improve the success rate of pre-clinical drug candidates, or unless the market demand for such pre-clinical drug candidates improves, we might continue to face difficult market conditions for our products and services which might inhibit our growth.

We may not be able to achieve and maintain success in our offshore operations.

We recently entered into a research and development collaboration agreement under which we utilize scientists and equipment at a subcontractor's facility located in India to take advantage of a lower cost structure. However, we may not be able to achieve or maintain a successful relationship in this offshore location or realize lower costs. Additionally, such offshore business could suffer due to the geographical, time and distance challenges as well as cultural difficulties of managing such an operation, which could cause delays, customer dissatisfaction or other issues.

Many of our products and services have lengthy sales cycles, which could cause our operating results to fluctuate significantly from quarter to quarter.

Sales of many of our products and services typically involve significant technical evaluation and commitment of expense or capital by our customers. Accordingly, the sales cycles, or the time from finding a prospective customer through closing the sale, associated with these products or collaborations, typically range from six to eighteen months. Sales of these products and the formation of these collaborations are subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews that are beyond our control. Due to these lengthy and unpredictable sales cycles, our operating results could fluctuate significantly from quarter to quarter. We expect to continue to experience significant fluctuations in quarterly operating results due to a variety of factors, such as general and industry specific economic conditions, that may affect the research and development expenditures of pharmaceutical and biopharmaceutical companies.

Our products and services involve significant scientific risk of fulfillment.

A large portion of our revenues relies upon our and our customers' scientific success. Our products, services and technologies may fail to assist our customers in achieving their drug discovery objectives, on a timely basis or at all. For example, when our customers deliver proteins to us for assay development or chemistry library design ideas for chemical compound development and production, we rely on our customers for timely delivery of those deliverables, and our customers rely on us for timely and effective assay design or compound library development and production that fulfills our scientific obligations to them. To the extent that either we experience delays or failures in receiving specific deliverables required for us to complete our objectives or we encounter delays in our ability to meet, or are unable to meet, our scientific obligations, we may be unable to receive and recognize revenues in accordance with our expectations.

If our revenues decline or do not grow as anticipated, we might not be able to correspondingly reduce our operating expenses.

A large portion of our expenses, including expenses for facilities, equipment and personnel, is relatively fixed. Accordingly, if revenues decline or do not grow as anticipated, we might not be able to correspondingly reduce our operating expenses. Failure to achieve anticipated levels of revenues could therefore significantly harm our operating results for a particular fiscal period.

Due to the possibility of fluctuations in our revenues (on an absolute basis and relative to our expenses), we believe that quarter-to-quarter comparisons of our operating results are not a reliable indication of our future performance.

If our products and services do not become widely used in the pharmaceutical and biopharmaceutical industries, it is unlikely that we will be profitable.

We have a limited history of offering our products and services, including informatics tools, biology services, μARCS, toxicology services, Crystal Farm and combinatorial chemistry instrumentation systems. It is uncertain whether our current customers will continue to use these products and services or whether new customers will use these products and services. In order to be successful, our products and services must meet the requirements of the pharmaceutical and biopharmaceutical industries, and we must convince potential customers to use our products and services instead of competing technologies and offerings. Moreover, we cannot thrive unless we can achieve economies of scale on our various offerings. Market acceptance will depend on many factors, including our ability to:

- convince potential customers that our technologies are attractive alternatives to other technologies for drug discovery;
- manufacture products and conduct services in sufficient quantities with acceptable quality and at an acceptable cost;
- convince potential customers to purchase drug discovery products and services from us rather than developing them internally; and
- place and service sufficient quantities of our products.

Because of these and other factors, some of which are beyond our control, our products and services may not gain sufficient market acceptance.

The intellectual property rights on which we rely to protect the technology underlying our products and techniques may not be adequate, which could enable third parties to use our technology or very similar technology and could reduce our ability to compete in the market.

Our success will depend, in part, on our ability to obtain, protect and enforce patents on our technology and to protect our trade secrets. We also depend, in part, on patent rights that third parties license to us. Any patents we own or license may not afford meaningful protection for our technology and products. Others may challenge our patents or the patents of our licensors and, as a result, these patents could be narrowed, invalidated or rendered unenforceable. In addition, current and future patent applications on which we depend may not result in the issuance of patents in the United States or foreign countries. Competitors may develop products similar to ours that are not covered by our patents. Further, since there is a substantial backlog of patent applications at the U.S. Patent and Trademark Office, the approval or rejection of our or our competitors' patent applications may take several years.

Our European eukaryotic gene profiling patent was opposed by various companies. Oral proceedings were held before the Opposition Division of the European Patent Office in January 2003. At the conclusion of the hearing, the Opposition Division maintained our patent in amended form. The period during which an appeal of the Opposition Division decision could be made has expired. As amended, the patent claims kits and methods for identifying and characterizing the potential toxicity of a compound using expression profiles of four categories of stress.

In addition to patent protection, we also rely on copyright protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, we require our employees, consultants and advisors to execute confidentiality and proprietary information agreements. However, these agreements may not provide us with adequate protection against improper use or disclosure of confidential information, and there may not be adequate remedies in the event of unauthorized use or disclosure. Furthermore, like many technology companies, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities conducted by us. In some situations, our confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships.

We acquired an exclusive license to the µARCS technology from Abbott Laboratories. The µARCS technology provides high throughput screening of compounds against a very broad range of drug discovery targets. Under the license agreement, Abbott is required to seek patent coverage for the licensed technology. If any license disputes arise between us and Abbott relating to the µARCS technology and we are not able to resolve those disputes, or if Abbott is unsuccessful in obtaining adequate patent coverage for the µARCS technology, our ability to screen compounds may be compromised and we may not be able to prevent competitors, including Abbott, from using the µARCS technology, which could have a material adverse effect on our financial condition and results of operation.

Although we require our employees and consultants to maintain the confidentiality of all confidential information of previous employers, their prior affiliations may subject us or these individuals to allegations of trade secret misappropriation or other similar claims. Finally, others may independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets. Our failure to protect our proprietary information and techniques may inhibit or limit our ability to exclude certain competitors from the market.

The drug discovery industry has a history of intellectual property litigation and we may be involved in intellectual property lawsuits, which may be lengthy and expensive.

In order to protect or enforce our patent rights, we may have to initiate legal or administrative proceedings against third parties. In addition, others may sue us or initiate interference proceedings against us for infringing their intellectual property rights, or we may find it necessary to initiate a lawsuit seeking a declaration from a court that we are not infringing the proprietary rights of others. The patent positions of pharmaceutical, biopharmaceutical and drug discovery companies are generally uncertain. A number of pharmaceutical companies, biopharmaceutical companies, independent researchers, universities and research institutions may have filed patent applications or may have been granted patents that cover technologies similar to the technologies owned by, or licensed to, us or our collaborators. A number of patents may have been issued or may be issued in the future that could cover certain aspects of our technology and that could prevent us from using technology that we use or expect to use. In addition, we are unable to determine all of the patents or patent applications that may materially affect our ability to make, use or sell any potential products. Legal or administrative proceedings relating to intellectual property would be expensive, take significant time and divert management's attention from other business concerns, no matter whether we win or lose. The cost of such litigation, interference or administrative proceedings could hurt our profitability.

Further, an unfavorable judgment in an administrative proceeding, interference or infringement lawsuit brought against us, in addition to any damages we might have to pay, could prevent us from obtaining intellectual property protection for our technology, require us to stop the infringing activity or obtain a license. Any required license may not be available to us on acceptable terms, or at all. In addition, some licenses may be nonexclusive, and therefore, our competitors may have access to the same technology that is licensed to us. If we fail to obtain a required license or are unable to design around a patent, we may be unable to sell some of our products or services.

Our stock price will likely be volatile.

The trading price of our common stock has been and will likely continue to be volatile and could be subject to fluctuations in price in response to various factors, many of which are beyond our control, including:

actual or anticipated variations in quarterly operating results;

announcements of technological innovations by us or our competitors;

new products or services introduced or announced by us or our competitors;

changes in financial estimates by (or the beginning or cessation of research coverage by) securities analysts;

the announcement of financial results that do not meet or exceed the results anticipated by the public markets;

conditions or trends in the pharmaceutical and biopharmaceutical industries or in the drug discovery services industry;

announcements by us or our competitors of significant acquisitions, collaborations, joint ventures or capital commitments, or terminations of collaborations or joint ventures;

the implementation or wind-down of stock buyback programs;

additions or departures of key personnel;

economic and political factors; and

sales of our common stock, including sales by any of our stockholders who beneficially own more than 5% of our common stock and who could potentially sell large amounts of our common stock at any one time.

In addition, price and volume fluctuations in the stock market in general, and the Nasdaq National Market and the market for technology companies in particular, have often been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of securities of life sciences companies have been particularly volatile. Conditions or trends in the pharmaceutical and biopharmaceutical industries generally may cause further volatility in the trading price of our common stock, because the market may incorrectly perceive us as a pharmaceutical or biopharmaceutical company and our customers are pharmaceutical and biopharmaceutical companies. These broad market and industry factors may harm the market price of our common stock, regardless of our operating performance. In the past, plaintiffs have often instituted securities class action litigation following instances of volatility in the market price of a company's securities. A securities class action suit against us could result in potential liabilities, substantial costs and the diversion of management's attention and resources, regardless of whether we win or lose.

Our customers may restrict our use of scientific information, which could prevent us from using this information for additional revenue.

We plan to generate and use information that is not proprietary to our customers and which we derive from performing drug discovery services for our customers. However, our customers may not allow us to use information such as the general interaction between types of chemistries and types of drug targets that we generate when performing drug discovery services for them. Our current contracts typically restrict our use of certain scientific information we generate for our customers, such as the biological activity of chemical compounds with respect to drug targets, and future contracts also may restrict our use of additional scientific information. To the extent that our use of information is restricted, we may not be able to collect and aggregate scientific data and take advantage of potential revenue opportunities.

Our ability to grow will depend on our attracting and retaining key executives, experienced scientists and sales personnel.

Our future success will depend to a significant extent on our ability to attract, retain and motivate highly skilled scientists and sales personnel. In addition, our business would be significantly harmed if we lost the services of Riccardo Pigliucci, our chief executive officer. We

do not maintain life insurance on any of our officers. Our ability to maintain, expand or renew existing collaborations with our customers, enter into new collaborations and provide additional services to our existing customers depends, in large part, on our ability to hire and retain scientists with the skills necessary to keep pace with continuing changes in drug discovery technologies and sales personnel who are highly motivated. Additionally, it is difficult for us to find qualified sales personnel in light of the fact that our sales personnel generally hold PhD's in scientific fields. Our U.S. employees are "at will," which means that they may resign at any time, and we may dismiss them at any time (subject, in some cases, to severance payment obligations). We believe that there is a shortage of, and significant competition for, scientists with the skills and experience in the sciences necessary to perform the services we offer. We compete with pharmaceutical companies, biopharmaceutical companies, combinatorial chemistry companies, contract research companies and academic institutions for new personnel. If we do not attract new scientists or sales personnel or retain or motivate our existing personnel, we will not be able to grow.

We have acquired several businesses and face risks associated with integrating these businesses and potential future acquisitions.

We have acquired several businesses and plan to continue to review potential acquisition candidates in the ordinary course of our business, and our strategy includes building our business through acquisitions. Acquisitions involve numerous risks, including, among others, difficulties and expenses incurred in the consummation of acquisitions and assimilation of the operations, personnel and services or products of the acquired companies, difficulties of operating new businesses, the diversion of management's attention from other business concerns and the potential loss of key employees of the acquired company. In addition, acquired businesses may have management structures incompatible with our own and may experience difficulties in maintaining their existing levels of business after joining us. If we do not successfully integrate and grow the businesses we have acquired or any businesses we may acquire in the future, our business will suffer. Additionally, acquisition candidates may not be available in the future or may not be available on terms and conditions acceptable to us. Acquisitions of foreign companies also may involve additional risks of assimilating different business practices, overcoming language and cultural barriers and foreign currency translation. We currently have no agreements or commitments with respect to any acquisition, and we may never successfully complete any additional acquisitions.

We may incur write-downs or write-offs in connection with potential future acquisitions, and exit costs, losses and liabilities in connection with potential future business divestitures or shut-downs.

We incurred a $50.9 million goodwill impairment charge during the fourth quarter of 2002, which represented the write-off of goodwill that we had accumulated in connection with several acquisitions. In the event that we make future acquisitions, we may take additional write-downs or write-offs associated with acquired assets, which could have a material adverse effect on our results of operations and financial condition. Any future acquisitions we make may also not improve our business as much as we expect, or be accretive to our earnings, which could cause the trading price of our common stock to decline. In addition, if any future acquisitions we make do not improve our business as much as we expect, we may choose to discontinue the businesses associated with those acquisitions by divestiture or by shutting those businesses down. We may also choose to divest or shut down existing businesses or product or service lines for strategic reasons. We may incur substantial exit costs, losses and liabilities in connection with any such divestiture or shut-down.

Our success will depend on our ability to manage growth and expansion.

Growth in our operations has placed and, if we grow in the future, will continue to place a significant strain on our operational, human and financial resources. We intend to continue to grow our business internally and by acquisition. As and if we expand our operations we will not necessarily have in place infrastructure and personnel sufficient to accommodate the increased size of our business. Our ability to effectively manage any growth through acquisitions or any internal growth will depend, in large part, on our ability to hire, train and assimilate additional management, professional, scientific and technical personnel and our ability to expand, improve and effectively use our operating, management, marketing and financial systems to accommodate our expanded operations. These tasks are made more difficult as we acquire businesses in geographically disparate locations.

Our operations could be interrupted by damage to our facilities.

Our results of operations are dependent upon the continued use of our highly specialized laboratories and equipment. Our operations are primarily concentrated in facilities in San Diego, California, South San Francisco, California and Allschwil, Switzerland. Natural disasters, such as earthquakes or fires, or terrorist acts could damage our laboratories or equipment and these events may materially interrupt our business. We maintain business interruption insurance to cover lost

revenues caused by certain of such occurrences. However, this insurance would not compensate us for the loss of opportunity and potential adverse impact on relations with existing customers created by an inability to meet our customers' needs in a timely manner, and may not compensate us for the physical damage to our facilities.

We have accrued significant net operating loss carryforwards that we believe we will not be able to fully use.

At December 31, 2003, we had federal and California income tax net operating loss carryforwards of approximately $21.8 million and $14.5 million, respectively. The federal and California tax loss carryforwards will begin to expire in 2010 and 2005, respectively, unless previously utilized. We believe that our ability to utilize our net operating loss carryforwards may be substantially restricted by the limitations of Section 382 of the Internal Revenue Code which apply when there are certain changes in ownership of a corporation. To the extent we begin to realize significant taxable income, these limitations may result in our incurring federal income tax liability notwithstanding the existence of otherwise available carryforwards. To date we have not quantified the potential impact of these limitations.

We are subject to foreign currency risk related to conducting business in multiple currencies.

Currency fluctuations between the U.S. dollar and the currencies in which we do business, including the British pound, the Japanese yen, the Swiss franc and the Euro, will cause foreign currency translation gains and losses. We cannot predict the effects of exchange rate fluctuations on our future operating results because of the number of currencies involved, changes in the percentage of our revenue that will be invoiced in foreign currencies, the variability of currency exposure and the potential volatility of currency exchange rates. Because we conduct business in multiple currencies we are subjected to economic and earnings risk. We do not currently engage in foreign exchange hedging transactions to manage our foreign currency exposure; however, we may begin to hedge certain transactions between the Swiss franc and other currencies that are invoiced from our Swiss affiliate in order to minimize foreign exchange transaction gains and losses.

We may be subject to liability regarding hazardous materials.

Our products and services as well as our research and development processes involve the controlled use of hazardous materials. For example, we often use dangerous acids, bases, oxidants, radio isotopic and flammable materials. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. We cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, we could be held liable for any damages that result, and any such liability could exceed our resources and disrupt our business. In addition, we may have to incur significant costs to comply with environmental laws and regulations related to the handling or disposal of such materials or waste products in the future, which would require us to spend substantial amounts of money.

Because it is unlikely that we will pay dividends, our stockholders will only be able to benefit from holding our stock if the stock price appreciates.

We have never paid cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future.

Anti-takeover provisions in our stockholder rights plan and in our charter and bylaws could make a third-party acquisition of us difficult.

In 2003 we adopted a stockholder rights plan (a so-called "poison pill"). Also, our certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

Sales of our common stock pursuant to this offering and otherwise may hurt our common stock's market price.

Axys Pharmaceuticals is selling approximately 29% of our outstanding shares of our common stock in this offering, which may cause the price of our stock to decline. Moreover, if our stockholders sell substantial amounts of our common stock in the public market following the offering, the market price of our common stock could decline. These sales might also make it more difficult for us to sell equity securities in the future at times and prices that we deem appropriate.

Subject to the exceptions described elsewhere in this prospectus under the heading "Underwriting," we and all of our executive officers and directors and Axys Pharmaceuticals have agreed not to offer, sell or otherwise dispose of any shares of capital stock or any securities which may be converted into or exchanged for any shares of our capital stock for a period of 90 days from the date of this prospectus, other than the shares being sold pursuant to this prospectus. However, the underwriters may waive this restriction and allow us or them to sell shares at any time. Shares of common stock subject to these lock-up agreements and held by executive officers and directors or issuable to Axys Pharmaceuticals upon exercise of a warrant it holds to purchase shares of our common stock will become eligible for sale in the public market upon expiration of these lock-up agreements, subject to limitations imposed by Rule 144 under the Securities Act of 1933, as amended.

FORWARD-LOOKING INFORMATION

Some of the statements contained in this prospectus or incorporated by reference into this prospectus are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Securities Litigation Reform Act of 1995. These forward-looking statements relate to future events or our future financial and/or operating performance and can generally be identified as such because the context of the statement may include words such as "may," "will," "intends," "plans," "believes," "anticipates," "expects," "estimates," "predicts," "potential," "continue," or "opportunity," the negative of these words or words of similar import. Similarly, statements that describe our plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking statements. These forward-looking statements are based largely on our expectations and projections about future events and future trends affecting our business, and so are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this prospectus or the date of documents incorporated by reference into this prospectus that include forward-looking statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this prospectus and in any documents incorporated by reference into this prospectus. The key factors that could cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to, risks related to:

- our dependence on Pfizer for a large part of our revenues;
- competitive conditions in our industry in the United States and abroad;
- technological change in the drug discovery industry;
- our ability to realize returns and generate revenues from our investments in products, services and technologies for the drug discovery industry;
- research and development expenditures by pharmaceutical and biopharmaceutical companies, and the extent to which pharmaceutical and biopharmaceutical companies outsource their research and development efforts;
- the concentration of the pharmaceutical industry and the current trend toward increasing consolidation;
- our success in securing and executing on integrated drug discovery collaborations;
- our ability to expand customer relationships by selling products and services in multiple areas of drug discovery to existing customers;
- our customers having therapeutic successes involving the use of our products and services;

our success with our offshore operations;

the lengthy sales cycles of our products and services;

our and our customers having scientific success in our collaborative efforts;

the fixed costs associated with our business;

the strength of our intellectual property rights and potential infringement of our intellectual property rights;

potential infringement by us of our competitors' intellectual property rights;

the volatility of our stock price;

our customers' restrictions on our use of scientific information;

our ability to attract and retain key executives, experienced scientists and sales personnel;

integrating businesses we have acquired and potential future acquisitions, and selecting appropriate candidates for potential future acquisitions;

write-downs or write-offs in connection with potential future acquisitions, and exit costs, losses and liabilities in connection with potential future business divestitures or shut-downs;

our ability to manage growth and expansion;

damage to our facilities from natural and other disasters;

our ability to use net operating loss carryforwards;

conducting transactions in foreign currencies;

our use of hazardous materials; and

anti-takeover provisions in our stockholder rights plan and in our charter and bylaws.

Because the risk factors identified above, as well as the risk factors beginning on page 8 of this prospectus and factors discussed elsewhere in this prospectus and in the documents incorporated by reference into this prospectus, may cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any forward-looking statements. You should read these factors and the other cautionary statements we make as being applicable to all related forward-looking statements that we make. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance

and you should not use our historical performance to anticipate results or future period trends. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this prospectus or the date of documents incorporated by reference into this prospectus that include forward-looking statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares of common stock offered by Axys Pharmaceuticals under this prospectus. We will only receive proceeds from this offering in the event that the underwriters exercise their over-allotment option. In the event that the underwriters exercise their over-allotment option in full, we will sell 1,083,300 shares of common stock and our estimated net proceeds from the sale, after deducting underwriting discounts and commissions, would be approximately $ million. Pursuant to the terms of an investors' rights agreement entered into in April 2000 to which we and Axys Pharmaceuticals are parties, all expenses incurred in connection with this offering are payable by Axys Pharmaceuticals, other than underwriting discounts and commissions payable by us on any shares the underwriters purchase from us in exercising their over-allotment option.

We intend to use the net proceeds to us, if any, from this offering for general corporate purposes, including working capital and research and development. We may also use the net proceeds to us, if any, from this offering to acquire or invest in complementary businesses, joint ventures, strategic alliances, products, or technologies. We currently have no commitments with respect to any acquisition or investment.

If we receive any net proceeds in this offering, the amounts and timing of our actual expenditures using those net proceeds will depend on numerous factors, including the status of our product and technology development efforts, our sales and marketing activities, technological advances in the drug discovery industry, the amount of cash generated or used by our operations and competitive conditions in the drug discovery industry. We will retain broad discretion in the allocation and use of any net proceeds we receive in this offering. Pending the uses described above, we intend to invest any net proceeds with the objectives of preserving principal while maintaining adequate liquidity to meet projected cash requirements and to achieve a yield on investments.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market, under the symbol DPII. The following table sets forth the range of high and low sales prices on the Nasdaq National Market of our common stock for the quarterly periods indicated, as reported by Nasdaq.