EPIX Pharmaceuticals, Inc.
Form S-4/A
July 14, 2006

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As filed with the Securities and Exchange Commission on July 14, 2006
Registration No. 333-133513

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

AMENDMENT NO. 3
TO
Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

EPIX PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**2835**	**04-3030815**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

161 First Street
Cambridge, Massachusetts 02142
(617) 250-6000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Andrew C.G. Uprichard, M.D.
President and Chief Operating Officer
EPIX Pharmaceuticals, Inc.
161 First Street
Cambridge, Massachusetts 02142
(617) 250-6000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

William T. Whelan, Esq. **Daniel T. Kajunski, Esq.** **Mintz, Levin, Cohn, Ferris, Glovsky and Popeo P.C.** **One Financial Center** **Boston, Massachusetts 02111** **(617) 542-6000**	**Michael G. Kauffman, M.D., Ph.D.** **Predix Pharmaceuticals Holdings, Inc.** **4 Maguire Road** **Lexington, Massachusetts 02421** **(781) 372-3260**	**Lawrence S. Wittenberg, Esq.** **Edward A. King, Esq.** **Goodwin Procter LLP** **Exchange Place** **Boston, Massachusetts 02109** **(617) 570-1000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective and upon completion of the merger described in the enclosed joint proxy

statement/ prospectus.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, 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, 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(d) 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

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date (i) 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 (ii) 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.

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The information in this joint proxy statement/ prospectus is not complete and may be changed. The securities being offered by the use of this joint proxy statement/ prospectus may not be issued until the registration statement filed with the Securities and Exchange Commission, of which this proxy statement and prospectus is a part, is declared effective. This joint proxy statement/ prospectus is not an offer to sell these securities nor a solicitation of any offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY COPY
SUBJECT TO COMPLETION, DATED JULY 14, 2006

ANNUAL AND SPECIAL MEETINGS OF STOCKHOLDERS
MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

The boards of directors of EPIX Pharmaceuticals, Inc. (EPIX) and Predix Pharmaceuticals Holdings, Inc. (Predix) have approved a merger combining EPIX and Predix.

If the merger is consummated, Predix will be merged with and into a wholly-owned subsidiary of EPIX. The terms of the merger agreement provide for the issuance of shares of EPIX common stock to Predix stockholders in exchange for all of the outstanding shares of Predix. At the effective time of the merger, EPIX stockholders will retain approximately 53%, and the former Predix stockholders will own approximately 47%, of the outstanding shares of EPIX s common stock as more fully described in the joint proxy statement/ prospectus. EPIX will also assume all of Predix s stock options and warrants outstanding at the time of the merger. In addition, EPIX will make a milestone payment of $35 million to Predix stockholders, option holders and warrant holders upon the occurrence of certain events. EPIX may elect to make the milestone payment in cash or in shares of EPIX common stock, to the extent that the aggregate amount of EPIX common stock as a result of such milestone payment does not exceed 49.99% of the outstanding shares of EPIX common stock immediately after such milestone payment, when combined with all shares of EPIX common stock issued in the merger and issuable upon exercise of all Predix options and warrants assumed by EPIX in the merger. EPIX common stock is listed on The NASDAQ Global Market under the symbol EPIX. On July 13, 2006, the last trading day before the date of this joint proxy statement/ prospectus, the closing sale price of EPIX common stock was $4.58 per share. The merger is intended to qualify for federal income tax purposes as a reorganization under the provisions of Section 368 of the Internal Revenue Code of 1986, as amended.

Stockholders of EPIX will be asked, at EPIX s annual meeting of stockholders, among other proposals, to approve the merger, to approve an amendment to EPIX s restated certificate of incorporation, to approve the issuance of shares of EPIX common stock to the stockholders of Predix in the merger and to approve authorizing the EPIX board of directors to effect a reverse stock split. Stockholders of Predix will be asked, at Predix s special meeting of stockholders, to approve and adopt the merger agreement and to approve the merger.

The dates, times and places of the meetings are as follows:

For EPIX stockholders:
, 2006
10:00 a.m., local time
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, Massachusetts 02111

For Predix stockholders:
, 2006
9:00 a.m., local time
Goodwin Procter LLP
Exchange Place
Boston, Massachusetts 02109

This joint proxy statement/ prospectus provides you with information about EPIX, Predix and the proposed merger. You may obtain other information about EPIX and Predix from documents filed with the Securities and Exchange Commission. We encourage you to carefully read the entire joint proxy statement/ prospectus.

Andrew C.G. Uprichard, M.D.
President and Chief Operating Officer
EPIX Pharmaceuticals, Inc.

Michael G. Kauffman, M.D., Ph.D.
Chief Executive Officer
Predix Pharmaceuticals Holdings, Inc.

FOR A DISCUSSION OF SIGNIFICANT MATTERS THAT SHOULD BE CONSIDERED BEFORE VOTING AT THE STOCKHOLDER MEETINGS, SEE RISK FACTORS BEGINNING ON PAGE 21.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATORS HAVE APPROVED OR DISAPPROVED THE EPIX COMMON STOCK TO BE ISSUED IN THE MERGER OR DETERMINED WHETHER THIS JOINT PROXY STATEMENT/ PROSPECTUS IS ACCURATE OR ADEQUATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This joint proxy statement/ prospectus is dated , 2006, and is first being mailed to stockholders of EPIX and Predix on or about , 2006.

THIS JOINT PROXY STATEMENT/ 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.

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ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about EPIX and Predix from other documents that are not included in or delivered with the joint proxy statement/ prospectus. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this joint proxy statement/ prospectus by requesting them in writing or by telephone or over the Internet from the appropriate company at one of the following addresses:

EPIX Pharmaceuticals, Inc.
Attn: Investor Relations
161 First Street
Cambridge, Massachusetts 02142
(617) 250-6000
E-mail: ahedison@epixpharma.com
Or:
Predix Pharmaceuticals Holdings, Inc.
Attn: Investor Relations
4 Maguire Road
Lexington, Massachusetts 02421
(781) 372-3260
E-mail: investors@predixpharm.com

IF YOU WOULD LIKE TO REQUEST ANY DOCUMENTS, PLEASE DO SO BY , 2006, THE DATE THAT IS FIVE BUSINESS DAYS BEFORE THE ANNUAL AND SPECIAL MEETINGS, IN ORDER TO RECEIVE THEM BEFORE THE ANNUAL AND SPECIAL MEETINGS.

See Where You Can Find More Information beginning on page 243.

EXPLANATORY NOTE

Except as otherwise stated in this joint proxy statement/prospectus, all per share information and other information contained in this joint proxy statement/prospectus does not give effect to any reverse stock split of EPIX common stock described in EPIX s Proposal No. 3.

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EPIX Pharmaceuticals
161 First Street
Cambridge, Massachusetts 02142
(617) 250-6000

NOTICE OF ANNUAL MEETING OF EPIX STOCKHOLDERS
TO BE HELD ON , 2006

To the Stockholders of EPIX Pharmaceuticals, Inc:

On behalf of the board of directors of EPIX Pharmaceuticals, Inc, a Delaware corporation, we are pleased to deliver this joint proxy statement/ prospectus for the proposed merger combining EPIX and Predix Pharmaceuticals Holdings, Inc., a Delaware corporation. An annual meeting of stockholders of EPIX will be held on , 2006 at 10:00 a.m., local time, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts, 02111 for the following purposes:

1. To consider and vote upon the issuance of shares of EPIX common stock in the merger as contemplated by the Agreement and Plan of Merger, dated as of April 3, 2006, as amended, by and among EPIX Pharmaceuticals, Inc., EPIX Delaware, Inc., a wholly-owned subsidiary of EPIX, and Predix Pharmaceuticals Holdings, Inc., and approve the merger of Predix Pharmaceuticals Holdings, Inc. with and into EPIX Delaware, Inc.;

2. To approve an amendment to EPIX s amended and restated certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 shares to 100,000,000 shares, representing an additional 60,000,000 shares, which may be necessary to provide EPIX with sufficient authorized shares of common stock to issue in connection with the merger and is described in the joint proxy statement/ prospectus;

3. To authorize the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split of EPIX s issued and outstanding shares of common stock, at such ratio between 1:1.25 to 1:4 to be determined by the EPIX board of directors, which may be necessary for EPIX to maintain its eligibility for trading on The NASDAQ Global Market after completion of the merger, which is a condition to consummate the merger, as described in this joint proxy statement/prospectus;

4. To elect two directors for a three-year term to expire at the 2009 annual meeting of stockholders and to elect one director for a one-year term to expire at the 2007 annual meeting of stockholders; provided, however, that, if the merger is completed, the EPIX board of directors will consist of the nine persons identified in the joint proxy statement/ prospectus;

5. To ratify the selection of Ernst & Young LLP as EPIX s independent registered public accounting firm for the fiscal year ending December 31, 2006;

6. To consider and vote on a proposal to approve the adjournment of the annual meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the annual meeting to approve Proposal Nos. 1, 2 and 3; and

7. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The board of directors of EPIX has fixed June 28, 2006 as the record date for the determination of stockholders entitled to notice of, and to vote at, the annual meeting and any adjournment or postponement thereof. Only holders of record of shares of EPIX common stock at the close of business on the record date are entitled to notice of, and to vote at, the annual meeting. At the close of business on the record date, EPIX had 23,284,810 shares of common stock outstanding and entitled to vote.

Your vote is important. The affirmative vote of the holders of a majority of the shares present at the EPIX annual meeting is required for approval of Proposal Nos. 1, 5 and 6 above. The affirmative vote of the holders of a majority of the outstanding common stock on the record date is required for approval of Proposal Nos. 2 and 3. The affirmative vote of a plurality of the votes cast at the EPIX annual meeting is required for approval of Proposal No. 4. Even if you plan to attend the annual meeting in person, we request that you sign and return the enclosed proxy and thus ensure that your shares will be represented at the annual meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of Proposal Nos. 1 through 7. If you fail to return your proxy card, the effect will be a vote against the adoption of Proposal Nos. 2 and 3 and your shares will not be counted for purposes of determining whether a quorum is present at the annual meeting. If you do attend the EPIX annual meeting and wish to vote in person, you may withdraw your proxy and vote in person.

By Order of the Board of Directors,

President and Chief Operating Officer
EPIX Pharmaceuticals, Inc.

Cambridge, Massachusetts
, 2006

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THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE ISSUANCE OF SHARES OF EPIX COMMON STOCK IN THE MERGER IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH ISSUANCE. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 1 TO APPROVE THE ISSUANCE OF SHARES OF EPIX COMMON STOCK IN THE MERGER AND APPROVE THE MERGER.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT AN AMENDMENT TO EPIX S RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 40,000,000 SHARES TO 100,000,000 SHARES, WHICH REPRESENTS AN ADDITIONAL 60,000,000 SHARES, IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH AMENDMENT. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 2 TO APPROVE AN AMENDMENT TO EPIX S RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 40,000,000 SHARES TO 100,000,000 SHARES. THE APPROVAL OF PROPOSAL NO. 2 MAY BE NECESSARY TO ENABLE EPIX TO ISSUE THE REQUIRED NUMBER OF SHARES OF EPIX COMMON STOCK TO PREDIX STOCKHOLDERS, OPTION HOLDERS AND WARRANT HOLDERS IN CONNECTION WITH THE MERGER.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT AUTHORIZING THE EPIX BOARD OF DIRECTORS TO AMEND IN ITS DISCRETION EPIX S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF EPIX S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK, AT SUCH RATIO TO BE DETERMINED BY THE EPIX BOARD OF DIRECTORS, IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH AUTHORIZATION. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 3 TO AUTHORIZE THE EPIX BOARD OF DIRECTORS TO AMEND IN ITS DISCRETION EPIX S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF EPIX S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK, AT SUCH RATIO TO BE DETERMINED BY THE EPIX BOARD OF DIRECTORS. THE APPROVAL OF PROPOSAL NO. 3 MAY BE NECESSARY FOR EPIX TO MAINTAIN ITS ELIGIBILITY FOR TRADING ON THE NASDAQ GLOBAL MARKET AFTER COMPLETION OF THE MERGER, WHICH IS A CONDITION TO CONSUMMATION OF THE MERGER.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE ELECTION OF TWO DIRECTORS FOR A THREE-YEAR TERM TO EXPIRE AT THE 2009 ANNUAL MEETING OF STOCKHOLDERS AND THE ELECTION OF ONE DIRECTOR FOR A ONE-YEAR TERM TO EXPIRE AT THE 2007 ANNUAL MEETING OF STOCKHOLDERS IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE PROPOSAL. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 4 TO ELECT TWO DIRECTORS FOR A THREE-YEAR TERM TO EXPIRE AT THE 2009 ANNUAL MEETING OF STOCKHOLDERS AND TO ELECT ONE DIRECTOR FOR A ONE-YEAR TERM TO EXPIRE AT THE 2007 ANNUAL MEETING OF STOCKHOLDERS; PROVIDED, HOWEVER, THAT, IF THE MERGER IS COMPLETED, THE EPIX BOARD OF DIRECTORS WILL CONSIST OF THE NINE PERSONS IDENTIFIED IN THE ACCOMPANYING JOINT PROXY STATEMENT/ PROSPECTUS

THE EPIX BOARD OF DIRECTORS HAS DETERMINED THAT THE RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS EPIX S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH RATIFICATION. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS

VOTE FOR PROPOSAL NO. 5 TO RATIFY THE SELECTION

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OF ERNST & YOUNG LLP AS EPIX S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT ADJOURNING THE EPIX ANNUAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NOS. 1, 2 AND 3 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE PROPOSAL. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 6 TO ADJOURN THE EPIX ANNUAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NOS. 1, 2 AND 3.

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4 Maguire Road
Lexington, Massachusetts 02421
(781) 372-3260

NOTICE OF SPECIAL MEETING OF PREDIX STOCKHOLDERS
TO BE HELD ON , 2006

To the Stockholders of Predix Pharmaceuticals Holdings, Inc.:

On behalf of the board of directors of Predix Pharmaceuticals Holdings, Inc., a Delaware corporation, we are pleased to deliver this joint proxy statement/ prospectus for the proposed merger combining EPIX Pharmaceuticals, Inc. and Predix. A special meeting of stockholders of Predix will be held on , 2006 at 9:00 a.m., local time, at the offices of Goodwin Procter LLP, Exchange Place, Boston, Massachusetts, 02109 for the following purposes:

1. To consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger, dated as of April 3, 2006, as amended, by and among EPIX Pharmaceuticals, Inc., EPIX Delaware, Inc., a wholly-owned subsidiary of EPIX, and Predix Pharmaceuticals Holdings, Inc., and approve the merger of Predix Pharmaceuticals Holdings, Inc. with and into EPIX Delaware, Inc.;

2. To consider and vote on a proposal to approve the adjournment of the special meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve and adopt the merger agreement and to approve the merger; and

3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The board of directors of Predix has fixed June 28, 2006 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. Only holders of record of shares of Predix common stock and holders of record of shares of Predix preferred stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting. Holders of Predix preferred stock vote on an as-converted to Predix common stock basis. At the close of business on the record date, Predix had outstanding and entitled to vote (a) 1,097,357 shares of common stock and (b) 273,203,492 shares of preferred stock, consisting of 76,771,672 shares of Series AB preferred stock, which are convertible into 4,265,060 shares of Predix common stock and 196,431,820 shares of Series C preferred stock, which are convertible into 10,912,838 shares of Predix common stock.

Your vote is important. The affirmative vote of the holders of: (a) a majority of the common stock and the preferred stock voting as a single class (on an as-converted to Predix common stock basis); (b) 60% of the preferred stock voting as a single class (on an as-converted to Predix common stock basis), and (c) 66^{2}/3% of the shares of the Series C preferred stock (on an as-converted to Predix common stock basis), in each case, outstanding on the record date, is required for approval of Proposal No. 1 above. The affirmative vote of the holders of a majority of the outstanding common stock and the preferred stock voting as a single class on an as-converted to Predix common stock basis on the record date is required for approval of Proposal Nos. 2 and 3 above. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of the approval and adoption of the merger agreement and the approval of the merger and an adjournment of the Predix special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal No. 1. If you fail to return your proxy card,

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the effect will be a vote against the approval and adoption of the merger agreement and the approval of the merger and your shares will not be counted for purposes of determining whether a quorum is present at the Predix special meeting. If you do attend the Predix special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

By Order of the Board of Directors,

President and Chief Executive Officer
Predix Pharmaceuticals Holdings, Inc.

Lexington, Massachusetts
, 2006

THE PREDIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE MERGER IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, PREDIX AND ITS STOCKHOLDERS AND HAS APPROVED THE MERGER AND THE MERGER AGREEMENT. THE PREDIX BOARD OF DIRECTORS RECOMMENDS THAT PREDIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 1 TO APPROVE AND ADOPT THE MERGER AGREEMENT AND TO APPROVE THE MERGER AND FOR PROPOSAL NO. 2 TO ADJOURN THE SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NO. 1.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

All references to the merger agreement contained throughout this joint proxy statement/prospectus shall refer to the merger agreement, as amended by amendment no. 1 thereto.

Except where specifically noted, the following information and all other information contained in this joint proxy statement/prospectus does not give effect to any reverse stock split described in EPIX s Proposal No. 3.

The following section provides answers to frequently asked questions about the effect of the merger on the holders of EPIX common stock and Predix common stock, preferred stock, warrants and stock options. EPIX and Predix urge you to read carefully the remainder of this joint proxy statement/ prospectus, including the documents attached to this joint proxy statement/ prospectus, because the information in this section does not provide all the information that might be important to you regarding the merger and the other matters being considered at the EPIX annual meeting and the Predix special meeting.

Q: Why are EPIX and Predix proposing the merger? (See pages 71 and 80)

A: EPIX and Predix are proposing the merger because they believe the resulting combined company will be a stronger, more diverse company with more growth potential than either company would have separately. EPIX and Predix believe that the merger may result in a number of benefits, including:

a broader, more balanced portfolio of product candidates, with significant market potential;

the opportunity for each company s stockholders to participate in the potential growth of the combined company after the merger; and

a seasoned management team and significant financial resources.

Q: Why am I receiving this joint proxy statement/ prospectus?

A: You are receiving this joint proxy statement/ prospectus because you have been identified as a stockholder of either EPIX or Predix, and thus you are entitled to vote at EPIX s annual meeting or Predix s special meeting, as the case may be. This document serves as both a joint proxy statement of EPIX and Predix, used to solicit proxies for the stockholder meetings, and as a prospectus of EPIX, used to offer shares of EPIX common stock in exchange for shares of Predix common stock and preferred stock pursuant to the terms of the merger agreement. This document contains important information about the merger and the stockholder meetings of EPIX and Predix, and you should read it carefully.

Q: What will a Predix stockholder receive in exchange for Predix stock in the merger? (See pages 62 and 89)

A: Each Predix stockholder will receive 1.239411 shares of EPIX common stock, subject to adjustment to account for the reverse stock split if implemented, for each share of Predix common stock or preferred stock (on an as-converted to Predix common stock basis) that they own, and cash in lieu of fractional shares. We refer to this as the exchange ratio. In approving the merger agreement, the holders of Predix preferred stock will be agreeing to accept the merger consideration as set forth in the merger agreement in lieu of any liquidation preferences that they would be entitled to under the Predix restated certificate of incorporation, as amended, prior to the consummation of the merger.

In addition, EPIX will make a milestone payment to Predix stockholders, option holders and warrant holders in an aggregate amount of $35 million upon the occurrence of certain events. EPIX may elect to make the milestone payment in cash or shares of EPIX common stock, or any combination thereof. The milestone payment will be allocated and paid to each holder of Predix shares, options and warrants at the time of the merger, on a pro rata basis assuming that each Predix warrant and option (whether or not vested) was exercised in full immediately

prior to the merger.

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In no event will the shares of EPIX common stock issuable at the effective time of the merger, including the shares of EPIX common stock issuable upon exercise of Predix options and warrants assumed by EPIX in the merger, exceed 49.99% of the outstanding EPIX common stock immediately after the effective time of the merger. In addition, in no event may the milestone be paid in shares of EPIX common stock to the extent that such shares would exceed 49.99% of the outstanding shares of EPIX common stock immediately after such milestone payment, when combined with all shares of EPIX common stock issued in the merger and issuable upon exercise of all Predix options and warrants assumed by EPIX in the merger.

Q: What events will trigger the milestone payment from EPIX? (See pages 62 and 90)

A: Predix stockholders, option holders and warrant holders will receive the milestone payment within 90 days following the occurrence, as determined by the non-Predix members of the combined company s board of directors, of any of the following events between the date of this joint proxy statement/ prospectus and June 30, 2008:

receipt of statistically significant final results from a randomized, placebo- or active comparator controlled, double-blinded Phase II or Phase III clinical trial of:

PRX-00023 for the treatment of generalized anxiety disorder, depression, attention-deficit hyperactivity disorder or other neuropsychiatric disorder with at least 100 patients;

PRX-03140 for the treatment of Alzheimer s disease or other cognitive disorders with at least 60 patients;

PRX-08066 for the treatment of pulmonary artery hypertension, chronic obstructive pulmonary disease or a different indication with at least 60 patients;

PRX-07034 for the treatment of obesity, cognitive disorders or a different indication with at least 60 patients; or

entering into a strategic partnership for any Predix drug candidate, which provides milestone and research funding payments of more than $50 million, of which $20 million must be in unrestricted cash received by June 30, 2008 through non-refundable license fees, research funding payments, and/or premiums paid in connection with an equity investment by the strategic partner within 60 days following entry into the strategic partnership.

Q: If triggered, when will the milestone payment be made? (See pages 62 and 90)

A: The milestone payment will be paid within 90 days after the achievement of a milestone event, at the option of the non-Predix members of the combined company s board of directors either:

in cash, shares of EPIX common stock or any combination thereof with the number of such shares to be issued determined based on the five-day average closing price of EPIX common stock on The NASDAQ Global Market ending on the trading day that is ten days prior to the payment date; or

$20 million payable in accordance with the preceding bullet and $15 million payable on the date that is 12 months after the payment of the initial $20 million in shares of EPIX common stock, with the number of such shares to be issued determined based on 75% of the 30-day average closing price of EPIX common stock on The NASDAQ Global Market ending on the trading day that is ten days prior to the payment date. If, as a result of the 49.99% limitation described below, the entire $15 million payment cannot be made in shares of EPIX common stock, the balance will be paid in cash plus interest calculated from the milestone payment date at the rate of 10% per year.

In no event may the milestone be paid in shares of EPIX common stock to the extent that such shares would exceed 49.99% of the outstanding shares of EPIX common stock immediately after such milestone payment, when combined with all shares of EPIX common stock issued in the merger and issuable upon exercise of all Predix options and warrants assumed by EPIX in the merger. As a result of this limitation, if the milestone payment is triggered before EPIX issues a significant number of new

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shares of its capital stock or before consummation of the merger, all or a substantial portion of the milestone payment will be paid in cash. Additionally, the milestone will be paid in cash to the holders of Predix options and warrants assumed by EPIX in the merger.

Q: Who will be the directors of EPIX following the merger? (See page 103)

A: Following the merger, the board of directors of EPIX will consist of nine members, of which five will be designated by EPIX and four will be designated by Predix. The following individuals are expected to comprise the EPIX board of directors after the merger:

Christopher F.O. Gabrieli, Chairman
Patrick J. Fortune, Ph.D.
Frederick Frank
Michael Gilman, Ph.D.
Michael G. Kauffman, M.D., Ph.D.
Mark Leuchtenberger
Robert J. Perez
Gregory D. Phelps
Ian F. Smith, CPA, ACA

Mr. Perez will be the fifth person designated by EPIX to serve on the board of directors of EPIX after the merger.

Q: Who will manage EPIX following the merger? (See page 103)

A: Following the merger, the management team and key employees of EPIX will be comprised of certain key employees and members of both EPIX s and Predix s respective management teams prior to the merger and is expected to include the following individuals:

Name	Position in the Combined Company	Current Position
Michael G. Kauffman, M.D., Ph.D.	Chief Executive Officer and Director	Predix s President and Chief Executive Officer
Andrew C.G. Uprichard, M.D.	President	EPIX s President and Chief Operating Officer
Kimberlee C. Drapkin, CPA	Chief Financial Officer	Predix s Chief Financial Officer
Oren Becker, Ph.D.	Chief Scientific Officer	Predix s Chief Scientific Officer
Stephen R. Donahue M.D.	Vice President of Clinical & Regulatory Affairs	Predix s Vice President of Clinical and Regulatory Affairs
Philip Graham, Ph.D.	Vice President of Product Management and Imaging	EPIX s Vice President of Program Management
Silvia Noiman, Ph.D.	Senior Vice President of Pipeline Management, General Manager Israel	Predix s Senior Vice President of Pipeline Management, General Manager Israel
Chen Schor, CPA	Chief Business Officer	Predix s Chief Business Officer
Sharon Shacham, Ph.D.	Vice President of Preclinical Development and Product Leadership	Predix s Vice President of Preclinical Development and Product Leadership
Brenda Sousa	Vice President of Human Resources	EPIX s Vice President of Human Resources

Q: What stockholder approval is needed to complete the merger? (See pages 58 and 60)

A: To consummate the merger, EPIX stockholders must approve the issuance of shares of EPIX common stock in the merger and approve the merger, which requires the affirmative vote of the holders of a majority of the shares present at the EPIX annual meeting, whether in person or by proxy. In addition, to ensure EPIX has sufficient shares of EPIX common stock authorized to issue in connection with the merger and to enable EPIX to meet the listing requirements of The NASDAQ Global Market after the merger. EPIX is seeking stockholder approval of each of the following: (a) the amendment to

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EPIX s restated certificate of incorporation increasing the number of authorized shares of EPIX common stock, which requires the affirmative vote of the holders of a majority of the outstanding shares of EPIX common stock as of the record date and (b) the authorization of the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of EPIX common stock at a ratio of between 1:1.25 to 1:4, which requires the affirmative vote of the holders of a majority of the outstanding shares of EPIX common stock as of the record date. As discussed in more detail in this joint proxy statement/prospectus, the approval of authorization to implement the reverse stock split will be necessary to complete the merger only if the trading price of EPIX common stock on The NASDAQ Global Market is below $5.00 per share upon closing of the merger. The EPIX board of directors, however, is seeking approval of both actions at the EPIX annual meeting to ensure that all actions necessary to consummate the merger are obtained at that time. Additionally, the EPIX board of directors expects to amend EPIX s restated certificate of incorporation to increase the number of authorized shares of EPIX common stock, if approved, whether or not it is necessary to consummate the merger.

In addition, Predix stockholders must vote to approve and adopt the merger agreement and to approve the merger, which requires the affirmative vote of the holders of: (a) a majority of the Predix common stock and preferred stock voting as a single class (on an as-converted to Predix common stock basis); (b) 60% of the Predix preferred stock voting as a single class (on an as-converted to Predix common stock basis), and (c) $66^2/3$ % of the shares of Predix Series C preferred stock (on an as-converted to Predix common stock basis), in each case, outstanding on the record date for the Predix special meeting.

In addition to obtaining stockholder approval, each of the other closing conditions set forth in the merger agreement must be satisfied or waived. For a more complete description of the closing conditions under the merger agreement, we urge you to read the section entitled The Merger Agreement Conditions to the Completion of the Merger on page 97 of this joint proxy statement/ prospectus.

Q: What do I need to do now? (See pages 55 and 59)

A: After carefully reading and considering the information contained in and incorporated into this joint proxy statement/ prospectus, please submit your proxy card according to the instructions on the enclosed proxy card as soon as possible. If you do not submit a proxy card or attend the special meeting and vote in person, your shares will not be represented or voted at the meeting.

Q: Will the merger trigger the recognition of gain or loss for U.S. federal income tax purposes for Predix stockholders? (See page 83)

A: The closing of the merger is conditioned upon the receipt by Predix and EPIX of opinions that the merger will constitute a reorganization for U.S. federal income tax purposes. Assuming the merger does constitute a reorganization, subject to the limitations and qualifications described in The Merger Material United States Federal Income Tax Consequences of the Merger, each Predix stockholder generally will recognize gain, but not loss, for federal income tax purposes under the installment method at the time of any cash milestone payment in the aggregate amount equal to the lesser of (a) the amount of cash such Predix stockholder receives in the merger or (b) the amount, if any, by which the sum of (i) the fair market value of any EPIX common stock such Predix stockholder receives, and (ii) the amount of cash such Predix stockholder receives in the merger, exceeds such Predix stockholder s adjusted tax basis in its shares of Predix common stock or preferred stock, as applicable, and will be required to include the amount of the gain in such stockholder s gross income for federal income tax purposes for the year in which the holder receives the cash milestone payment attributable to the gain. Under the installment method, a Predix stockholder will not recognize any gain in the merger until any cash milestone payment is made. However, a Predix stockholder electing out of the application of the installment method will be required to recognize gain at the closing in the amount equal to the lesser of (a) the fair market value of the milestone payment obligation such Predix stockholder receives in the merger or (b) the amount, if any, by which

the sum of (i) the fair market value of any EPIX common stock such Predix stockholder receives, and (ii) the fair market value of the milestone payment obligation such Predix stockholder receives, exceeds such Predix stockholder s adjusted tax basis in its shares of Predix stock surrendered in the merger. Any cash received in lieu of a fractional share of EPIX common stock will be treated separately for federal

income tax purposes. The tax consequences to Predix stockholders will depend on each stockholder s own circumstances. Each Predix stockholder should consult with his, her or its tax advisor for a full understanding of the tax consequences of the merger to that stockholder.

Q: How does the EPIX Board of Directors recommend that I vote?

A: After careful consideration, the EPIX board of directors recommends that EPIX stockholders vote:

FOR Proposal No. 1 to approve the issuance of shares of EPIX common stock in the merger and approve the merger;

FOR Proposal No. 2 to approve an amendment to EPIX s amended and restated certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 shares to 100,000,000 shares;

FOR Proposal No. 3 to authorize the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split of EPIX s issued and outstanding shares of common stock, at such ratio to be determined by the EPIX board of directors;

FOR Proposal No. 4 to elect two directors for a three-year term to expire at the 2009 annual meeting of stockholders and to elect one director for a one-year term to expire at the 2007 annual meeting of stockholders; provided, however, that if the merger is completed, the EPIX board of directors will consist of the nine persons identified in this joint proxy statement/ prospectus;

FOR Proposal No. 5 to ratify the selection of Ernst & Young LLP as EPIX s independent registered public accounting firm for the fiscal year ending December 31, 2006; and

FOR Proposal No. 6 to adjourn the annual meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal Nos. 1, 2 and 3.

Q: How does the Predix Board of Directors recommend that I vote?

A: After careful consideration, the Predix board of directors recommends that Predix stockholders vote:

FOR Proposal No. 1 to approve and adopt the merger agreement and to approve the merger; and

FOR Proposal No. 2 to adjourn the special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal No. 1.

Q: What risks should I consider in deciding whether to vote in favor of the share issuance, approval of the merger, the amendment to EPIX s restated certificate of incorporation, the approval and adoption of the merger agreement and the authorization of the EPIX board of directors to effect a reverse stock split?

A: You should carefully review the section of this joint proxy statement/ prospectus entitled Risk Factors beginning on page 21, which sets forth certain risks and uncertainties related to the merger and risks and uncertainties to which the combined company s business will be subject, including the individual businesses of each of EPIX and Predix.

Q: What happens if I do not return a proxy card or otherwise provide proxy instructions?

A: If you are an EPIX stockholder, the failure to return your proxy card or otherwise provide proxy instructions could be a factor in establishing a quorum for the annual meeting of EPIX stockholders. In addition, the failure to return your proxy card or otherwise provide instructions will have the same effect as voting against Proposal No. 2, the amendment of EPIX s restated certificate of incorporation to increase the authorized shares of EPIX common stock, the approval of which may be necessary to enable EPIX to issue shares of EPIX common stock to Predix

stockholders, option holders and warrant holders in connection with the merger, and Proposal No. 3, the authorization of the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split of EPIX s issued and outstanding shares of common stock, at such ratio to be determined by the EPIX board of directors, which may be necessary for EPIX to maintain its eligibility for trading on The NASDAQ Global Market after completion of the merger. If you are a Predix stockholder, the

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failure to return your proxy card or otherwise provide proxy instructions will have the same effect as voting against the approval and adoption of the merger agreement and the approval of the merger, and could be a factor in establishing a quorum for the special meeting of Predix stockholders.

Q: May I vote in person?

A: If your shares of EPIX common stock on the record date are registered directly in your name with EPIX s transfer agent you are considered, with respect to those shares, the stockholder of record, and the proxy materials and proxy card are being sent directly to you by EPIX. If you are an EPIX stockholder of record, you may attend the annual meeting of EPIX stockholders to be held on , 2006 and vote your shares in person, rather than signing and returning your proxy card or otherwise providing proxy instructions. Each Predix stockholder on the record date is a stockholder of record and may attend the special meeting of Predix stockholders to be held on , 2006 and vote your shares in person, rather than signing and returning your proxy card or otherwise providing proxy instructions. All EPIX and Predix stockholders are requested to return their proxy cards, even if they intend to vote in person.

Q: May I change my vote after I have provided proxy instructions?

A: Yes. You may change your vote at any time before your proxy is voted at either the annual meeting of EPIX stockholders or the special meeting of Predix stockholders. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can submit new proxy instructions either on a new proxy card and if you are an EPIX stockholder also, by telephone or via the Internet. Third, you can attend the meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares of EPIX common stock, you must follow directions received from your broker to change those instructions.

Q: Have any Predix stockholders entered into lock-up agreements?

A: EPIX expects to obtain lock-up agreements from the officers, directors and certain stockholders of Predix covering an aggregate of approximately 9,049,530 Predix shares (on an as-converted to Predix common stock basis), or approximately 56% of Predix s outstanding shares, which agreements prohibit the sale, transfer, pledge or other disposition with respect to EPIX common stock for up to 180 days following the consummation of the merger as follows: (a) one-third (1/3) of such holder s restricted shares will be released from the lock-up after the 90th day following the consummation of the merger; (b) an additional one-third (1/3) of such holder s restricted shares will be released from the lock-up after the 120th day following the consummation of the merger; and (c) the remaining one-third (1/3) of such holder s restricted shares will be released from the lock-up after the 180th day following the consummation of the merger.

In addition, prior to the closing, EPIX expects to obtain affiliate agreements from the holders of approximately 9,049,530 Predix shares (on an as-converted to Predix common stock basis), representing approximately 56% of Predix outstanding shares (on an as-converted to Predix common stock basis) as of such date. These agreements prohibit the sale, transfer or other disposition with respect to EPIX s common stock in violation of the Securities Act of 1933, as amended, or the rules and regulations thereunder.

Q: Have any EPIX stockholders entered into lock-up agreements?

A: Yes. The chairman of the board of directors of EPIX, Christopher F.O. Gabrieli, has agreed to enter into the same lock-up agreement as certain Predix stockholders with respect to his shares of EPIX common stock.

Q: Will Predix stockholders be able to trade the EPIX common stock that they receive in the merger? (See page 87)

A: EPIX has filed an initial listing application with The NASDAQ Global Market pursuant to the Reverse Merger rules of The NASDAQ Global Market. If such application is accepted, EPIX anticipates that its common stock will continue to be listed on The NASDAQ Global Market following the completion of the

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merger under its current trading symbol EPIX. It is a condition to Predix s consummation of the merger that EPIX maintain the listing of its common stock on The NASDAQ Global Market.

Subject to the lock-up agreements discussed herein, all shares of EPIX common stock issued to Predix stockholders, other than Predix stockholders who are deemed to be affiliates of Predix, will be freely tradable following the merger. EPIX has agreed to file a registration statement with respect to these shares of EPIX common stock to be issued in the merger to persons who are deemed to be affiliates of Predix. As a result, these shares will also be freely tradable upon the effectiveness of this registration statement, subject only to certain prospectus delivery requirements and the terms of the lock-up agreements described herein, if applicable.

Q: Who is paying for this proxy solicitation?

A: EPIX and Predix are conducting this proxy solicitation and will bear the cost of soliciting proxies, including the preparation, assembly, printing and mailing of this joint proxy statement/ prospectus, the proxy card and any additional information furnished to stockholders of EPIX and Predix. EPIX may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their costs of forwarding proxy and solicitation materials to beneficial owners.

Q: When do you expect the merger to be completed?

A: EPIX and Predix are working to complete the merger as quickly as possible. EPIX and Predix expect to complete the merger by the end of August 2006.

Q: Should Predix stockholders send in their stock certificates now? (See page 91)

A: No. After the merger is completed, EPIX will send you written instructions for exchanging your Predix stock certificates for EPIX stock certificates.

Q: Whom should I call with questions? (See page 243)

A: If you are an EPIX stockholder and would like additional copies, without charge, of this joint proxy statement/ prospectus or if you have questions about the merger, including the procedures for voting your shares, you should contact:

EPIX Pharmaceuticals, Inc.
Attn: Investor Relations
161 First Street
Cambridge, Massachusetts 02142
(617) 250-6000
E-mail: ahedison@epixpharma.com

If you are a Predix stockholder and would like additional copies, without charge, of this joint proxy statement/ prospectus or if you have questions about the merger, including the procedures for voting your shares, you should contact:

Predix Pharmaceuticals Holdings, Inc.
Attn: Investor Relations
4 Maguire Road
Lexington, Massachusetts 02421
(781) 372-3260
E-mail: investors@predixpharm.com

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SUMMARY OF THE JOINT PROXY STATEMENT/ PROSPECTUS

This summary highlights selected information from this joint proxy statement/ prospectus and may not contain all of the information that is important to you.

You should carefully read this entire document and the other documents EPIX and Predix refer to for a more complete understanding of the merger. This summary and the balance of this document contain forward-looking statements about events that are not certain to occur, and you should not place undue reliance on those statements. Please carefully read Cautionary Information Regarding Forward-Looking Statements on page 20 of this document.

All references to the merger agreement contained throughout this joint proxy statement/ prospectus shall refer to the merger agreement, as amended by amendment no. 1 thereto.

Except where specifically noted, the following information and all other information contained in this joint proxy statement/prospectus does not give effect to any reverse stock split described in EPIX s Proposal No. 3.

This joint proxy statement/ prospectus contains trademarks, trade names, service marks and service names of EPIX, Predix and other companies.

The Companies (See pages 136 and 169)

EPIX Pharmaceuticals, Inc.

EPIX is a pharmaceutical company focused on the discovery and development of innovative specialty pharmaceuticals for imaging that are designed to transform the diagnosis, treatment and monitoring of disease. Using its proprietary Target Visualization Technology, EPIX creates imaging agents targeted at the molecular level. These agents are designed to enable physicians to use magnetic resonance imaging, or MRI, to obtain detailed information about specific disease processes. MRI has been established as the imaging technology of choice for a broad range of applications, including the identification and diagnosis of a variety of medical disorders. MRI is safe, relatively cost-effective and provides three-dimensional images that enable physicians to diagnose and manage disease in a minimally invasive manner.

EPIX s principal executive offices are located at 161 First Street, Cambridge, Massachusetts 02142, and its telephone number is (617) 250-6000. EPIX s website address is http://www.epixpharma.com. EPIX s website is a factual reference and it is not intended to be an active link to the website, and the information contained in the website is not a part of this joint proxy statement/ prospectus.

EPIX Delaware, Inc.

EPIX Delaware, Inc. is a wholly-owned subsidiary of EPIX that was recently incorporated in Delaware solely for the purpose of the merger. It does not conduct any business and has no material assets. Its principal executive offices have the same address and telephone number as EPIX set forth above.

Predix Pharmaceuticals Holdings, Inc.

Predix is a privately-held pharmaceutical company focused on the discovery and development of novel, highly selective, small-molecule drugs that target G-Protein Coupled Receptors and ion channels. Predix has progressed four drug candidates into clinical trials, one of which commenced a Phase I clinical trial on June 2, 2006, and has five additional programs in pre-clinical development or discovery. Predix is expecting to complete the first of at least two pivotal Phase III clinical trials for generalized anxiety disorder, for its lead drug candidate, PRX-00023, and receive initial data for this trial in the second half of 2006. Predix completed a Phase IIa clinical trial of PRX-00023 in this indication in July 2005. Predix has two other clinical-stage drug candidates that have completed Phase I clinical trials: PRX-03140 for the treatment of Alzheimer s disease that is expected to enter Phase II clinical trials in the second half of 2006, and PRX-08066 for the treatment of two types of pulmonary hypertension, which are pulmonary

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hypertension associated with chronic obstructive pulmonary disease that is expected to enter Phase II clinical trials in the second half of 2006, and pulmonary arterial hypertension. In addition, on June 2, 2006, Predix commenced a Phase I clinical trial of its PRX-07034 drug candidate for the treatment of obesity and cognitive impairment (associated with Alzheimer s disease or schizophrenia).

Predix s principal executive offices are located at 4 Maguire Road, Lexington, Massachusetts 02421, and its telephone number is (781) 372-3260. Predix s website address is http://www.predixpharm.com. Predix s website is a factual reference and it is not intended to be an active link to the website, and the information contained in the website is not a part of this joint proxy statement/ prospectus.

The Combined Company

At the effective time of the merger, EPIX stockholders will retain approximately 53% of the outstanding stock of the combined company, and the former Predix stockholders will own approximately 47% of the outstanding stock of the combined company, based on the number of shares of EPIX common stock and Predix common stock and preferred stock outstanding as of the date of the merger agreement. EPIX will also assume all outstanding Predix options and warrants in the merger. The combined company s board of directors is expected to consist of five directors designated by EPIX and four Predix directors designated by Predix. In addition, the management team of the combined company will consist of certain current members of both EPIX and Predix. Predix s principal executive office is expected to be the combined company s executive principal office.

Risks Associated with the Merger and the Combined Company, EPIX and Predix (See page 21)

The merger poses a number of risks to each company and its respective stockholders. In addition, both EPIX and Predix s businesses and industries are subject to various risks. These risks are discussed in detail under the caption Risk Factors beginning on page 21. You are encouraged to read and consider all of these risks carefully.

Stockholder Meetings

The EPIX Annual Meeting (See page 55)

Time, Date and Place. The annual meeting of the stockholders of EPIX will be held on , 2006, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts, at 10:00 a.m., local time, to vote on Proposal No. 1 to approve the issuance of shares of EPIX common stock in the merger and approve the merger, Proposal No. 2 to approve an amendment to EPIX s restated certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 shares to 100,000,000 shares, Proposal No. 3 to authorize the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split of EPIX s issued and outstanding shares of common stock, at such ratio to be determined by the EPIX board of directors, Proposal No. 4 to elect two directors for a three-year term to expire at the 2009 annual meeting of stockholders and to elect one director for a one-year term to expire at the 2007 annual meeting stockholders; provided, however, that, if the merger is completed, the EPIX board of directors will consist of the nine persons identified in this joint proxy statement/ prospectus, Proposal No. 5 to ratify the selection of Ernst & Young LLP as EPIX s independent registered public accounting firm for the fiscal year ending December 31, 2006, and Proposal No. 6 to adjourn the annual meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal Nos. 1, 2 and 3.

Record Date and Voting Power for EPIX. You are entitled to vote at the EPIX annual meeting if you owned shares of EPIX common stock at the close of business on June 28, 2006, the record date for the EPIX annual meeting. You will have one vote at the annual meeting for each share of EPIX common stock you owned at the close of business on the record date. There are 23,284,810 shares of EPIX common stock entitled to vote at the annual meeting.

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EPIX Required Vote. The affirmative vote of the holders of a majority of the shares present at the EPIX annual meeting, whether in person or by proxy, is required for approval of Proposal Nos. 1, 5 and 6 above. The affirmative vote of the holders of a majority of the outstanding shares of EPIX common stock on the record date is required for approval of Proposal Nos. 2 and 3. The affirmative vote of a plurality of the votes cast in person or by proxy at the EPIX annual meeting is required for approval of Proposal No. 4.

Share Ownership of Management. As of June 28, 2006, the current directors and executive officers of EPIX, together with their affiliates, beneficially owned approximately 1.83% of the shares entitled to vote at the EPIX annual meeting.

The Predix Special Meeting (See page 59)

Time, Date and Place. The special meeting of the stockholders of Predix will be held on , 2006, at the offices of Goodwin Procter LLP, Exchange Place, Boston, Massachusetts, at 9:00 a.m., local time, to vote on Proposal No. 1 to approve and adopt the merger agreement and approve of the merger and Proposal No. 2 to adjourn the Predix special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal No. 1.

Record Date and Voting Power for Predix. You are entitled to vote at the Predix special meeting if you owned shares of Predix common stock or preferred stock at the close of business on June 28, 2006, the record date for the special meeting. You will have one vote at the special meeting for each share of Predix common stock you owned at the close of business on the record date. You will also have one vote at the special meeting for each share of Predix common stock issuable upon conversion of the shares of Predix preferred stock you owned at the close of business on the record date. There are 1,097,357 shares of Predix common stock and 15,177,898 shares of Predix preferred stock (on an as-converted to Predix common stock basis) entitled to vote at the Predix special meeting.

Predix Required Vote. The affirmative vote of the holders of (a) a majority of the Predix common stock and preferred stock voting as a single class (on an as-converted to Predix common stock basis), (b) 60% of the Predix preferred stock voting as a single class (on an as-converted to Predix common stock basis) and (c) $66^2/3$ % of the shares of Predix series C preferred stock (on as as-converted to Predix common stock basis), in each case, outstanding on the record date, is required for approval of Proposal No. 1. The affirmative vote of the holders of a majority of the Predix common shares and preferred shares voting as a single class is required for approval of Proposal No. 2.

Share Ownership of Management. As of June 28, 2006, the directors and executive officers of Predix, together with their affiliates, beneficially owned approximately 56% of the shares of Predix common stock and preferred stock, on an as-converted Predix common stock basis, entitled to vote at the Predix special meeting. Stockholders of Predix beneficially owning approximately 40% of the outstanding voting stock of Predix have agreed to vote their shares in favor of the approval and adoption of the merger agreement and the approval of the merger. Certain of these stockholders are affiliated with directors of Predix.

Recommendation to Stockholders

To EPIX Stockholders (See page 73). The EPIX board of directors has determined and believes that the issuance of shares of EPIX common stock in the merger and the merger and the other proposals described in this joint proxy statementprospectus are advisable to and in the best interest of EPIX and its stockholders. The EPIX board of directors recommends that the holders of EPIX common stock vote FOR Proposal Nos. 1 through 6 at the annual meeting of stockholders of EPIX.

To Predix Stockholders (See page 82). The Predix board of directors has determined and believes that the merger is advisable to, and in the best interest of, Predix and its stockholders. The Predix board

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of directors recommends that the Predix stockholders vote FOR Proposals No. 1 and 2 at the special meeting of stockholders of Predix.

Fairness Opinion Received by EPIX (See page 74)

Needham & Company, LLC delivered its opinion to the EPIX board of directors that, as of March 30, 2006, and based on and subject to the factors and assumptions set forth therein, the consideration to be paid by EPIX in the merger is fair to EPIX and the holders of EPIX common stock from a financial point of view.

The full text of the written opinion of Needham & Company, LLC, dated March 30, 2006, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached to this joint proxy statement/ prospectus as Annex C. Needham & Company, LLC provided its opinion for the information and assistance of the EPIX board of directors in connection with its consideration of the merger. The written opinion of Needham & Company, LLC is not a recommendation as to how any holder of EPIX common stock should vote with respect to the issuance of shares of EPIX common stock in the merger, the approval of the merger or the amendment to EPIX s restated certificate of incorporation. **EPIX urges you to read the entire opinion of Needham & Company, LLC carefully.**

Voting Agreements (See page 102)

The following stockholders of Predix entered into voting agreements with EPIX on April 3, 2006: Caduceus Private Investment, L.P., UBS PW Juniper Crossover Fund, L.L.C., Hare and Company FAO: Finsbury Worldwide Pharma, Yozma II (Israel) L.P., Yozma Venture Capital Ltd, YVC-Yozma Management & Investments Ltd., as trustee for Yozma II (B.V.I.) L.P., PCM Venture Capital L.P., Yamanouchi Venture Capital and PA International Limited. These entities represent an aggregate of approximately 40% of the outstanding voting shares of Predix (on an as-converted to Predix common stock basis). Each has agreed in the voting agreements to vote all shares of Predix common stock and preferred stock beneficially owned by each as of the record date in favor of the approval and adoption of the merger agreement and the approval of the merger. Each also granted EPIX an irrevocable proxy to vote their shares of Predix common stock and preferred stock in favor of the adoption of the merger agreement and the approval of the merger. Certain of these stockholders are affiliated with directors of Predix.

Interests of EPIX s Directors and Management (See page 87)

Some directors and management of EPIX have interests in the merger that are different from, and in addition to, the interests of EPIX stockholders generally.

Upon completion of the merger, Christopher F.O. Gabrieli, Michael Gilman, Ph.D., Mark Leuchtenberger and Gregory D. Phelps, each of whom is a current director of EPIX, are expected to remain members of the EPIX board of directors. In addition, certain executive officers and key employees of EPIX are expected to serve as executive officers or key employees of EPIX after the effective time of the merger and certain officers of EPIX will be entitled to bonuses upon completion of the merger and/or severance payments after completion of the merger.

Upon completion of the merger and the issuance of EPIX common stock in the merger, the directors and officers of EPIX will collectively beneficially own approximately 0.9% of the outstanding stock of EPIX, calculated on the basis set forth under EPIX Principal Stockholders.

Interests of Predix s Directors and Management (See page 87)

Some directors and management of Predix have interests in the merger that are different from, and in addition to, the interests of Predix stockholders generally.

Upon completion of the merger, Patrick J. Fortune, Ph.D, Frederick Frank, Michael G. Kauffman, M.D., Ph.D. and Ian F. Smith, CPA, ACA, each of whom is a current director of Predix, are

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expected to be members of the EPIX board of directors. In addition, certain executive officers and key employees of Predix are expected to serve as executive officers or key employees of EPIX at the effective time of the merger.

Moreover, Mr. Frank, the Chairman of Predix s board of directors, is also the Vice Chairman and a director of Lehman Brothers Inc., Predix s financial advisor in connection with the merger. In connection with the merger, Lehman Brothers is entitled to a fee of $2.0 million from Predix, the entire amount of which is contingent upon consummation of the transaction.

Certain of the stockholders of Predix who have entered into voting agreements with EPIX, agreeing to vote all of the shares beneficially owned by them in favor of approval and adoption of the merger agreement and approval of the merger, are affiliated with directors of Predix.

Pursuant to the merger agreement, upon completion of the merger, the combined company will honor Predix s existing obligations to indemnify its present and former directors, officers and employees to the same extent as provided in Predix s certificate of incorporation, by-laws or any applicable contract or agreement. The certificate of incorporation and by-laws of the combined company will provide for the indemnification and limitation of liability to the same extent as set forth in Predix s certificate of incorporation and by-laws and the combined corporation will indemnify and hold harmless each present and former director, officer or employee of Predix in respect of acts or omissions occurring prior to the completion of the merger, including in connection with the merger agreement and the transactions contemplated thereby.

Upon completion of the merger and the issuance of EPIX common stock in the merger, the directors and officers of Predix will collectively beneficially own approximately 28.2% of the outstanding stock of EPIX, calculated on the basis set forth under Predix Principal Stockholders.

The NASDAQ Global Market Listing (See page 88)

EPIX has filed an initial listing application with The NASDAQ Global Market pursuant to the Reverse Merger rules of The NASDAQ Global Market. If such application is accepted, EPIX anticipates that its common stock will continue to be listed on The NASDAQ Global Market following the completion of the merger under its current trading symbol EPIX. It is a condition to Predix s consummation of the merger that EPIX maintain the listing of its common stock on The NASDAQ Global Market.

Completion and Effectiveness of the Merger (See pages 89 and 97)

EPIX and Predix expect to complete the merger when all of the conditions to completion of the merger contained in the merger agreement have been satisfied or waived. The merger will become effective upon the filing of a certificate of merger with the Secretary of State of the State of Delaware.

EPIX and Predix are working toward satisfying the conditions to the merger, and expect to complete the merger promptly following the stockholder meetings.

Restrictions on Solicitation of Alternative Transactions by EPIX and Predix (See page 93)

EPIX and Predix have each agreed, and have further agreed to ensure that their representatives do not, prior to the consummation of the merger, directly or indirectly, solicit, encourage, have negotiations with respect to (including furnishing information) or take any action that could reasonably be expected to result in the initiation or submission of any inquiries, proposals or offers regarding, or approve, endorse or recommend, any acquisition, merger, take-over bid, sale of substantial assets, sale of shares of capital stock (including without limitation by way of a tender offer) or similar transactions. EPIX and Predix have also agreed to notify each other upon receipt of any alternative acquisition proposal or any inquiry that would reasonably be expected to lead to an alternative acquisition proposal, including the terms of the alternative acquisition proposal or inquiry and the identity of the person making the alternative acquisition proposal or inquiry. However, if EPIX or Predix receives an unsolicited bona fide written acquisition proposal that is a

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superior acquisition proposal prior to the EPIX annual meeting or Predix special meeting, respectively, then EPIX or Predix may provide nonpublic information to, and engage in discussions and negotiations with, the third party making the acquisition proposal so long as certain conditions are satisfied.

Conditions to the Completion of the Merger (See page 97)

EPIX and Predix s obligations to complete the merger are subject to certain conditions described under the heading The Merger Agreement Conditions to the Completion of the Merger beginning on page 97.

Termination of the Merger Agreement and Payment of Certain Termination Fees (See pages 99 and 100)

EPIX and Predix may terminate the merger agreement by mutual agreement and under certain other circumstances. EPIX and Predix have agreed that if the merger agreement is terminated under the circumstances described under The Merger Agreement Fees and Expenses on page 100, a termination fee of $4.5 million may be payable by either EPIX or Predix to the other party upon the termination of the merger agreement.

United States Federal Tax Consequences of the Merger (See page 83)

The closing of the merger is conditioned upon the receipt by EPIX and Predix of opinions that the merger will constitute a reorganization for U.S. federal income tax purposes. As discussed in detail in the section entitled The Merger Material United States Federal Income Tax Consequences of the Merger beginning on page 83, Predix stockholders will be required to pay U.S. federal income taxes on the amount of any gain such stockholder recognizes as a result of the merger. Determining the actual tax consequences of the merger to you may be complex and will depend on the facts of your own situation. You should consult your own tax advisors to fully understand the tax consequences to you of the merger, including estate, gift, state, local or non-U.S. tax consequences of the merger.

Accounting Treatment of the Merger (See page 82)

EPIX, the acquirer, will account for the merger as a purchase.

Appraisal Rights (See page 86)

Under Delaware law, Predix stockholders are entitled to appraisal rights in connection with the merger. Please see the section entitled The Merger Appraisal Rights on page 86 for more information. As EPIX s common stock is quoted on The NASDAQ Global Market, EPIX stockholders will not be entitled to appraisal rights.

Exchange of Predix Stock Certificates (See page 91)

Following the effective time of the merger, EPIX will cause a letter of transmittal to be mailed to all holders of Predix common stock and preferred stock containing instructions for surrendering their certificates. Certificates should not be surrendered until the letter of transmittal is received, fully completed and returned as instructed in the letter of transmittal.

Regulatory Approvals (See page 95)

EPIX and Predix have made the required filings under the Hart-Scott Rodino Antitrust Improvement Act of 1976, as amended, or the HSR Act, with the Federal Trade Commission and the Department of Justice. On May 30, 2006, the waiting period under the HSR Act expired. However, the Federal Trade Commission or the Department of Justice, as well as a foreign regulatory agency or government, state or private person, may challenge the merger at any time before or after its completion. EPIX must also comply with applicable federal and state securities laws and the rules and regulations of The NASDAQ

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Global Market, including the approval of an initial listing application, in connection with the issuance of shares of EPIX common stock in the merger and the filing of this joint proxy statement/ prospectus with the Securities and Exchange Commission.

Restrictions on the Ability to Sell EPIX Common Stock (See page 87)

Subject to the lock-up agreements described in this joint proxy statement/ prospectus, all shares of EPIX common stock that Predix stockholders receive in connection with the merger will be freely transferable for the purposes of the Securities Act of 1933, as amended, unless you are considered an affiliate of Predix at the time the merger agreement is submitted to Predix stockholders for approval and adoption, in which case you will be permitted to sell the shares of EPIX common stock you receive in the merger only pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act of 1933, as amended. The registration statement of which this joint proxy statement/ prospectus forms a part does not register the resale of stock received by affiliates of Predix in the merger. EPIX has agreed to file a registration statement with respect to the shares of EPIX common stock received by the affiliates of Predix. As a result, these shares will be freely transferable upon the effectiveness of the registration statement, subject only to certain prospectus delivery requirements and the terms of the lock-up agreements, if applicable.

Comparison of EPIX and Predix Stockholder Rights (See page 219)

Upon completion of the merger, Predix stockholders will become stockholders of EPIX. The internal affairs of EPIX are governed by EPIX s restated certificate of incorporation and amended and restated by-laws. The internal affairs of Predix are currently governed by Predix s restated certificate of incorporation, as amended, and amended and restated by-laws. Due to differences between the governing documents of EPIX and Predix, the merger will result in Predix stockholders having different rights once they become EPIX stockholders.

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EPIX SELECTED HISTORICAL FINANCIAL INFORMATION

The following EPIX selected historical financial information is only a summary and you should read the following financial information together with EPIX Management s Discussion and Analysis of Financial Condition and Results of Operations and EPIX s financial statements and the notes thereto included elsewhere in this joint proxy statement/ prospectus.

The following tables present EPIX s selected statements of operations and balance sheet data for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 and the three months ended March 31, 2005 and 2006. EPIX has derived the following statements of operations data for the years ended December 31, 2003, 2004 and 2005 and the balance sheet data as of December 31, 2004 and 2005 from EPIX s audited financial statements which are included in this joint proxy statement/ prospectus. EPIX has derived the following consolidated statements of operations data for the three months ended March 31, 2005 and 2006 and the consolidated balance sheet data as of March 31, 2006 from EPIX s unaudited consolidated financial statements which are included in this joint proxy statement/ prospectus. EPIX has derived the following statements of operations data for the years ended December 31, 2001 and 2002 and the balance sheet data as of December 31, 2001, 2002 and 2003 from EPIX s audited financial statements, which are not included in this joint proxy statement/ prospectus. EPIX s historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(In thousands, except per share data)						
Statement of Operations Data:							
Revenues	$ 9,569	$ 12,270	$ 13,525	$ 12,259	$ 7,190	$ 2,086	$ 1,702
Operating loss	(18,841)	(22,816)	(21,083)	(20,111)	(24,802)	(6,191)	(4,919)
Loss before provision for income taxes	(18,156)	(22,098)	(20,714)	(20,281)	(24,269)	(6,256)	(4,484)
Provision for income taxes	1,092	94	80	100	42		44
Net loss	(19,248)	(22,191)	(20,795)	(20,381)	(24,311)	(6,256)	(4,527)
Weighted average common shares outstanding:							
Basic and diluted	14,007	16,878	19,056	22,889	23,258	23,227	23,285
Net loss per share, basic and diluted	$ (1.38)	$ (1.31)	$ (1.09)	$ (0.89)	$ (1.05)	$ (0.27)	$ (0.19)

	December 31,					March 31,
	2001	2002	2003	2004	2005	2006
	(In thousands)					
Balance Sheet Data:						
Cash, cash equivalents and marketable securities	$ 24,966	$ 28,112	$ 79,958	$ 164,440	$ 124,728	$ 118,846

Working capital	8,277	12,364	57,011	136,653	113,098	109,229
Total assets	26,911	30,155	81,875	171,287	130,716	125,022
Long-term liabilities	12,844	7,829	4,331	101,210	100,756	100,699
Total stockholders equity (deficit)	(3,210)	5,887	54,157	41,382	17,833	14,131

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PREDIX SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following Predix selected historical financial information is only a summary and you should read the following financial information together with Predix Management s Discussion and Analysis of Financial Condition and Results of Operations and Predix s consolidated financial statements and the notes thereto included elsewhere in this joint proxy statement/ prospectus.

The following tables present Predix s selected consolidated statements of operations and balance sheet data for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 and the three months ended March 31, 2005 and 2006. Predix has derived the following consolidated statements of operations data for the years ended December 31, 2003, 2004 and 2005 and the consolidated balance sheet data as of December 31, 2004 and 2005 from Predix s audited consolidated financial statements which are included in this joint proxy statement/ prospectus. Predix has derived the following consolidated statements of operations data for the three months ended March 31, 2005 and 2006 and the consolidated balance sheet data as of March 31, 2006 from Predix s unaudited consolidated financial statements which are included in this joint proxy statement/ prospectus. Predix has derived the following consolidated statements of operations data for the years ended December 31, 2001 and 2002 and the consolidated balance sheet data as of December 31, 2001, 2002 and 2003 from Predix s audited consolidated financial statements, which are not included in this joint proxy statement/ prospectus. Predix s historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003(1)	2004	2005	2005	2006
	(In thousands, except per share data)						
Statement of Operations Data:							
Revenues	$	$ 551	$ 1,068	$ 13	$ 2,300	$ 153	$ 784
Operating loss(2)	(12,978)	(11,206)	(24,696)	(19,502)	(34,287)	(7,560)	(7,757)
Income tax benefit		258					
Net loss	(11,189)	(11,241)	(24,560)	(19,392)	(33,703)	(7,417)	(7,721)

	As of December 31,					March 31,
	2001	2002	2003	2004	2005	2006
	(In thousands)					
Balance Sheet Data:						
Cash, cash equivalents and marketable securities	$ 33,097	$ 21,976	$ 10,999	$ 13,813	$ 7,413	$ 7,939
Working capital (deficit)	31,713	21,671	9,409	11,798	1,314	(5,486)
Total assets	39,568	27,098	13,462	16,717	11,799	12,476
Capital lease obligations, net of current portion	50	32	219	127	109	100
Lease abandonment liability, net of current portion			1,331	1,068	1,109	1,056
Total stockholders equity (deficit)	37,623	26,140	9,906	12,470	1,248	(5,395)

(1) In August 2003, Predix acquired all of the capital stock of Predix Pharmaceuticals Ltd., an Israeli corporation. The transaction was recorded as a purchase for accounting purposes and Predix s consolidated statements of operations data include the operating results of Predix Pharmaceuticals Ltd. from the date of acquisition.

(2) As a result of the acquisition of Predix Pharmaceuticals Ltd., Predix consolidated facilities and reduced headcount resulting in restructuring charges in 2003 of $5.4 million.

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EPIX AND PREDIX
UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated financial statements give effect to the merger of EPIX and Predix in a transaction to be accounted for as a purchase by EPIX. The unaudited pro forma condensed consolidated balance sheet combines the historical consolidated balance sheets of EPIX and Predix as of March 31, 2006, giving effect to the merger as if it occurred on March 31, 2006. The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2005 and the three months ended March 31, 2006 give effect to the merger as if it occurred on January 1, 2005 and reflect only pro forma adjustments expected to have a continuing impact on the combined results. The following information does not give effect to any reverse stock split of EPIX common stock described in EPIX s Proposal No. 3.

These unaudited pro forma condensed consolidated financial statements are for informational purposes only. They do not purport to indicate the results that would have actually been obtained had the merger been completed on the assumed date or for the periods presented, or that may be realized in the future. To produce the unaudited pro forma financial information, EPIX preliminarily allocated the purchase price using its best estimates of fair value. These estimates are based on the most recently available information in preparing a preliminary value. To the extent there are significant changes to Predix s business, the assumptions and estimates herein could change significantly. Furthermore, the parties may have reorganization and restructuring expenses as well as potential operating efficiencies as a result of combining the companies. The pro forma financial information does not reflect these potential expenses and efficiencies. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with EPIX Management s Discussion and Analysis of Financial Condition and Results of Operations, Predix Management s Discussion and Analysis of Financial Condition and Results of Operations, the historical financial statements, including the related notes, of EPIX and the historical consolidated financial statements, including the related notes, of Predix, covering these periods, included elsewhere in this joint proxy statement/ prospectus.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
As of March 31, 2006

	EPIX	Predix	Pro Forma Adjustments	Note Reference	Pro Forma Combined
			(In thousands)		
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 75,964	$ 7,939	(6,602)	(G)	$ 77,301
Marketable securities	42,882				42,882
Accounts receivable	95				95
Prepaid expenses and other current assets	480	2,196	(708)	(H)	1,968
Total current assets	119,421	10,135	(7,310)		122,246
Restricted cash		934			934
Property and equipment, net	2,108	1,368			3,476
Other assets	3,493	39	(638)	(B)	2,894
Total assets	$ 125,022	$ 12,476	(7,948)		$ 129,550
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$ 541	$ 3,456			$ 3,997
Accrued expenses	3,895	4,019	$ 2,139	(B)	10,053
Contract advances	5,425				5,425
Current portion of deferred revenue	331	1,303			1,634
Current portion of capital lease obligations		61			61
Current portion of lease abandonment liability		180			180
Notes payable		6,602	(6,602)	(G)	
Total current liabilities	10,192	15,621	(4,463)		21,350
Accrued rent		483			483
Convertible debt	100,000				100,000
Capital lease obligations, net of current portion		100			100
Lease abandonment liability, net of current portion		1,056			1,056
Deferred revenue, net of current portion	699	611			1,310
Total liabilities	110,891	17,871	(4,463)		124,299
Stockholders equity:					
Preferred stock		2,732	(2,732)	(C)	

Common stock	233	10	204	(A)	437
			(10)	(C)	
Additional paid-in capital	198,104	120,983	81,023	(A)	283,694
			4,567	(A)	
			(120,983)	(C)	
Accumulated other comprehensive income	(34)				(34)
Accumulated deficit	(184,172)	(129,120)	129,120	(C)	(278,846)
			(708)	(H)	
			(93,966)	(D)	
Total stockholders equity (deficit)	14,131	(5,395)	(3,485)		5,251
Total liabilities and stockholders equity	$ 125,022	$ 12,476	$ (7,948)		$ 129,550

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Three Months Ended March 31, 2006

	EPIX	Predix	Pro Forma Adjustments	Note Reference	Pro Forma Combined
			(In thousands, except per share data)		
Revenues:					
Product development revenue	$ 1,083	$ 597			$ 1,680
Royalty revenue	458				458
License fee revenue	162	187			349
Total revenues:	1,703	784			2,487
Costs and expenses:					
Research and development	3,993	7,036	242	(F)	11,271
General and administrative	2,338	1,475	60	(F)	3,873
Restructuring	290	30			320
Total costs and expenses	6,621	8,541	302		15,464
Loss from operations	(4,918)	(7,757)	(302)		(12,977)
Other income (expense):					
Investment income, net	1,304	42			1,346
Interest expense	(869)	(6)			(875)
Loss before provision for income tax	(4,483)	(7,721)	(302)		(12,506)
Provision for income tax	44				44
Net loss	$ (4,527)	$ (7,721)	(302)		$ (12,550)
Amounts per common share:					
Net loss per share, basic and diluted	$ (0.19)				$ (0.29)
Weighted average shares, basic and diluted	23,285		20,409	(E)	43,694

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2005

	EPIX	Predix	Pro Forma Adjustments	Note Reference	Pro Forma Combined
			(In thousands, except per share data)		
Revenues:					
Product development revenue	$ 4,196	$ 1,737			$ 5,933
Royalty revenue	2,333				2,333
License fee revenue	661	563			1,224
Total revenues:	7,190	2,300			9,490
Costs and expenses:					
Research and development	20,776	29,351	784	(F)	50,911
General and administrative	10,244	7,031	196	(F)	17,471
Restructuring	972	205			1,177
Total costs and expenses	31,992	36,587	980		69,559
Loss from operations	(24,802)	(34,287)	(980)		(60,069)
Other income (expense):					
Investment income, net	4,146	614			4,760
Interest expense	(3,613)	(30)			(3,643)
Loss before provision for income tax	(24,269)	(33,703)	(980)		(58,952)
Provision for income tax	42				42
Net loss	$ (24,311)	$ (33,703)	(980)		$ (58,994)
Amounts per common share:					
Net loss per share, basic and diluted	$ (1.05)				$ (1.35)
Weighted average shares, basic and diluted	23,258		20,409	(E)	43,667

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Transaction and Basis of Presentation

On April 3, 2006, EPIX Pharmaceuticals, Inc. (EPIX) and Predix Pharmaceuticals Holdings, Inc. (Predix) signed an Agreement and Plan of Merger, which was amended on July 10, 2006 by Amendment No. 1 thereto, (collectively, the Merger Agreement), under which Predix will merge with and into EPIX Delaware, Inc., a wholly-owned subsidiary of EPIX, in a transaction to be accounted for as a purchase by EPIX. The assets and liabilities of Predix will be recorded as of the acquisition date at their estimated fair values. The reported consolidated financial condition and results of operations of EPIX after completion of the merger will reflect these values, but will not be restated retroactively to reflect historical consolidated financial position or results of operations of Predix. The transaction is expected to qualify as a reorganization within the meaning of Section 386(a) of the Internal Revenue Code.

Under the terms of the merger agreement, each share of Predix common stock and preferred stock (on an as-converted to Predix common stock basis) outstanding at the closing of the merger will be exchanged for 1.239411 shares of EPIX common stock, subject to adjustment to account for the reverse stock split if implemented, plus cash in lieu of fractional shares. In addition, options to purchase Predix capital stock that are outstanding on the closing date will be assumed by EPIX and will thereafter constitute an option to acquire the number of shares of EPIX common stock determined by multiplying the number of shares of Predix capital stock subject to the option immediately prior to the merger by 1.239411, subject to adjustment to account for the reverse stock split if implemented, rounded down to the nearest whole share, with an exercise price equal to the exercise price of the assumed Predix option divided by 1.239411, subject to adjustment to account for the reverse stock split if implemented, rounded up to the nearest whole cent. Each of these options will be subject to the same terms and conditions that were in effect for the related Predix options. In addition, EPIX will make a milestone payment to Predix stockholders and option holders upon the occurrence of certain events. In no event will the shares of EPIX common stock issuable at the effective time of the merger, including the shares issuable upon exercise of Predix options assumed by EPIX in the merger, exceed 49.99% of the outstanding EPIX common stock immediately after the effective time of the merger. In addition, in no event may the milestone be paid in shares of EPIX common stock to the extent that such shares would exceed 49.99% of the outstanding shares of EPIX common stock immediately after such milestone payment, when combined with all shares of EPIX common stock issued in the merger and issuable upon exercise of all Predix options assumed by EPIX in the merger.

If the milestone is achieved, EPIX will account for the contingent consideration milestone payment as additional purchase price in accordance with Paragraph 27 of Statement of Financial Accounting Standards, or SFAS, No. 141, *Business Combinations*, or SFAS 141. As the valuation of Predix is not final, EPIX does not know, at this time, if the additional purchase price will result in goodwill, or in process research and development expense, or both. If achieved, the milestone will be accounted for when earned. If any EPIX shares are issued, they will be valued based on the closing price of the Company s common stock on the two full trading days immediately preceding the measurement date (the date the milestone is earned), the measurement date and the two full trading days immediately following the measurement date. Any change in the fair value of the stock from the milestone achievement date and the value of the stock based on the terms of the merger agreement, if any, will have no effect on the accounting. The value of the contingent consideration is fixed at $35 million, while the number of shares actually issued on the subsequent payment date may be different than the number of shares that would be issued if calculated on the measurement date.

The merger is subject to customary closing conditions, including approval by EPIX and Predix shareholders.

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Purchase Price

A preliminary estimate of the purchase price is as follows (in thousands):

Fair value of EPIX shares issued	$ 81,227
Estimated fair value of vested Predix stock options exchanged for EPIX stock options	4,567
Subtotal	85,794
Estimated transaction costs incurred by EPIX	2,777
Estimated purchase price	$ 88,571

For pro forma purposes, the fair value of the EPIX common stock used in determining the purchase price was $3.98 per share, which is the implied price of EPIX common stock based on (a) the average closing price of EPIX common stock on the two full trading days immediately preceding the public announcement of the merger, the trading day the merger was announced and the two full trading days immediately following such public announcement and (b) the exchange ratio of 1.239411, which is subject to adjustment to account for the reverse stock split if implemented. The fair value of the EPIX stock options exchanged was determined by using the Black-Scholes option pricing model with the following assumptions: stock price of $3.98, which is the value ascribed to the EPIX common stock in determining the purchase price; volatility of 70%; risk-free interest rate of 4.62%; and an expected life of 4.9 years.

For pro forma purposes, the estimated purchase price has been allocated based on a preliminary valuation of Predix s tangible and intangible assets and liabilities based on their estimated fair values as of March 31, 2006 (in thousands):

Net tangible assets acquired	$ (5,395)
In-process research and development	93,966
Total	$ 88,571

The allocation of the purchase price is preliminary. The final determination of the purchase price allocation will be based on the fair values of assets acquired, including the fair values of in-process research and development, other identifiable intangibles and the fair values of liabilities assumed as of the date that the merger is consummated.

The purchase price allocation will remain preliminary until EPIX completes a valuation of significant identifiable intangible assets acquired (including in-process research and development) and determines the fair values of the other assets and liabilities acquired. The final determination of the purchase price allocation is expected to be completed as soon as practicable after completion of the merger. The final amounts allocated to assets and liabilities acquired could differ significantly from the amounts presented in the unaudited pro forma condensed consolidated financial statements.

The estimated fair value attributed to in-process research and development represents an estimate of the fair value of purchased in-process technology for research projects that, as of the expected closing date of the merger, will not have reached technological feasibility and have no alternative future use. Only those research projects that had advanced to a stage of development where management believed reasonable net future cash flow forecasts could be prepared and a reasonable likelihood of technical success existed were included in the estimated fair value. Accordingly, the in-process research and development primarily represents the estimated fair value of PRX-00023, Predix s drug candidate currently in Phase III clinical trials for the treatment of generalized anxiety disorder,

PRX-03140, Predix s drug candidate that has completed Phase I clinical trials for the treatment of Alzheimer s disease, and PRX-08066, Predix s drug candidate that has completed Phase I clinical trials for the treatment of pulmonary hypertension. The estimated fair value of the in-process research and development was determined based on a discounted

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

forecast of the estimate net future cash flows for each project, adjusted for the estimated probability (for these purposes) of technical success and U.S. Food and Drug Administration or European Agency for Evaluation of Medicinal Products approval for each research project. In-process research and development will be expensed immediately following completion of the merger.

In determining the fair value to attribute to intangible assets, EPIX considered several categories of intangible assets including contract-based and technology-based intangible assets. In accordance with paragraph 39 and Appendix A of SFAS 141 identifiable intangible assets will be recognized if they arise from contractual or legal rights or if they are otherwise separable. Intangible assets that are not specifically identifiable, have indeterminate lives or are inherent in continuing business and related to the enterprise as a whole will be classified as goodwill provided it is appropriate to record goodwill relative to the valuation of the write off of in-process research and development.

Contract-based intangible assets (licensing arrangements): Predix s contractual relationship with Cystic Fibrosis Foundation Therapeutics, Inc. The terms of the agreement were considered to be ostensibly fair to both parties thus having no value separable from goodwill.

Technology-based intangible assets (technology platform, existing product candidates and patents, in-process research and development): Existing products and patents were determined to be separable from goodwill and will be valued as in-process research and development. The technology platform was determined to still be in-process and not complete, thus not separable from goodwill.

In identifying the acquired in-process research and development, the developmental projects were evaluated in the context of interpretation 4 and paragraph 11 of SFAS No. 2, *Accounting for Research and Development Costs*, along with reference to the American Institute of Certified Public Accountants Guide, *Assets Acquired in a Business Combination to be Used in Research and Development Activities: A Focus on Software, Electronic Devices and Pharmaceutical Industries.*

Based upon the preliminary valuation, there are no intangible assets other than in-process research and development that are separable from goodwill. Once the valuation is completed, the excess of the purchase price of Predix, if any, over the fair value of the net tangible and identifiable assets will be recorded as goodwill. It is, however, not currently anticipated that there will be goodwill.

3. Pro Forma Adjustments

(A) To record the value of the EPIX common stock and vested stock options issued in the merger. Cash paid in lieu of fractional shares will be from existing cash balances and cannot be estimated at this time.

(B) To record the estimated EPIX transactions costs not included in the March 31, 2006 balance sheet of $2.1 million. Transaction costs incurred by Predix will be expensed as incurred.

(C) To eliminate Predix s historical stockholders equity accounts.

(D) To record the estimated fair value of in-process research and development acquired in the merger. Because this expense is directly attributable to the acquisition and will not have a continuing impact, it is not reflected in the pro forma condensed statement of operations. However, this item will be recorded as an expense immediately following the completion of the merger.

(E) To record the issuance of EPIX shares to Predix shareholders to effect the merger.

(F) To record amortization of deferred compensation relating to unvested Predix options exchanged for unvested EPIX options.

(G) To record the repayment of Predix notes payable upon the closing of the merger.

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(H) To record the amortization of the value of the warrants issued in connection with the Predix notes issued. Because this expense is directly attributable to the acquisition and will not have a continuing impact, it is not reflected in the pro forma condensed statement of operations.

The pro forma condensed consolidated financial statements at March 31, 2006 do not include $2.9 million of the bridge financing debt Predix entered into after March 31, 2006. At March 31, 2006, $6.6 million of the total notes issued of $9.5 million had been issued. See Note 15 to Predix s consolidated financial statements included elsewhere in this joint proxy statement/prospectus.

4. The Pro Forma Condensed Consolidated Statement of Operations

Other than the adjustment to reflect the amortization of deferred compensation, the pro forma condensed consolidated statement of operations does not include any pro forma adjustments as the expense associated with the fair value of the In Process Research and Development acquired in the merger will not have a continuing impact, therefore, it is not reflected above. In addition, the historical costs of the assets and liabilities acquired in the merger approximate their fair value as they are the result of fairly recent transactions. As such, there are no pro forma adjustments to the pro forma condensed consolidated statement of operations. The final amounts allocated to assets and liabilities acquired could differ significantly from the amounts presented in these unaudited pro forma condensed financial statements.

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COMPARATIVE PER SHARE DATA

The following table sets forth selected historical share, net loss per share and book value per share information of EPIX and unaudited pro forma share, net loss per share and book value per share information after giving effect to the merger between EPIX and Predix, assuming that an aggregate of 20,408,767 shares of EPIX common stock had been issued in exchange for outstanding shares of Predix common stock and preferred stock (on an as-converted to Predix common stock basis). You should read this information in conjunction with the selected historical financial information included elsewhere in this joint proxy statement/ prospectus. The unaudited pro forma share, net loss per share and book value per share information is derived from, and should be read in conjunction with, the unaudited pro forma condensed consolidated financial statements and related notes included elsewhere in this joint proxy statement/ prospectus. The historical share, net loss per share and book value per share information is derived from financial statements of EPIX as of and for the three months ended March 31, 2006. The amounts set forth below are in thousands, except per share amounts and does not give effect to any reverse stock split of EPIX common stock.

	March 31, 2006	
	EPIX	
	Historical	Pro Forma
Basic and diluted net loss per share	$ (0.19)	$ (0.29)
Book value per share	0.61	0.12
Shares used in calculating basic and diluted net loss per share	23,285	43,694
Shares used in calculating book value per share	23,285	43,694

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MARKET PRICE AND DIVIDEND INFORMATION

EPIX

EPIX s common stock currently trades on The NASDAQ Global Market under the symbol EPIX. The following table shows the high and low sales price for the common stock by quarter, as reported by The NASDAQ Global Market for the periods indicated:

	Price Range	
Period	**High**	**Low**
Fiscal Year Ending December 31, 2006		
First Quarter	$ 5.17	$ 3.33
Second Quarter (through July 13, 2006)	4.95	2.70
Fiscal Year Ended December 31, 2005		
First Quarter	$ 18.18	$ 6.80
Second Quarter	9.80	6.26
Third Quarter	10.79	7.07
Fourth Quarter	8.47	3.78
Fiscal Year Ended December 31, 2004		
First Quarter	$ 23.40	$ 15.94
Second Quarter	26.37	20.34
Third Quarter	22.58	15.80
Fourth Quarter	20.00	15.28

On March 31, 2006, the last full trading day immediately preceding the public announcement of the merger, and on July 13, 2006, the most recent practicable date prior to the mailing of this joint proxy statement/ prospectus, the last reported sales prices of EPIX s common stock, as reported by The NASDAQ Global Market, were $3.50 and $4.58 per share, respectively. You are encouraged to obtain current trading prices for EPIX s common stock in considering whether to vote to approve the merger. As of June 28, 2006, there were approximately 76 holders of record of EPIX s common stock. EPIX has not paid cash dividends on its common stock and has no intention to do so in the foreseeable future.

Predix

Predix s common stock and preferred stock are not listed for trading on any securities exchange, and Predix does not currently file reports with the Securities and Exchange Commission. As of June 28, 2006, there were approximately 120 holders of record of Predix s common stock and 63 holders of record of Predix s preferred stock.

Predix has never declared or paid cash dividends on its capital stock. Predix does not anticipate paying any cash dividends on its capital stock in the foreseeable future. Predix currently intends to retain all available funds and any future earnings to fund the development and growth of its business.

The NASDAQ Global Market Listing

EPIX has filed an initial listing application with The NASDAQ Global Market pursuant to the Reverse Merger rules of The NASDAQ Global Market. If such application is accepted, EPIX anticipates that its common stock will continue to be listed on The NASDAQ Global Market following the completion of the merger under its current trading symbol EPIX.

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CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/ prospectus includes statements with respect to EPIX which constitute forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Words such as anticipate, believes, budget, continue, could, estimate, expect, forecast, in potential, predicts, project, should, will and similar expressions are intended to identify such forward-looking statements. Forward-looking statements in this joint proxy statement/ prospectus include, without limitation, statements regarding benefits of the proposed merger and future expectations concerning available cash and cash equivalents of the combined company, the expected timing of the conclusion of clinical trials, the timing of regulatory filings, and other matters that involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to differ materially from results expressed in or implied by this joint proxy statement/ prospectus. Such risk factors include, among others:

- difficulties encountered in integrating merged businesses;
- uncertainties as to the timing of the merger, approval of the transaction by the stockholders of the companies and the satisfaction of closing conditions to the transaction, including the receipt of regulatory approvals, if any;
- the competitive environment in the life sciences industry;
- whether the companies can successfully develop new products and the degree to which these gain market acceptance;
- the success and timing of our pre-clinical studies and clinical trials;
- the companies ability to obtain and maintain regulatory approval for their product candidates and the timing of such approvals;
- the companies ability to research, develop and commercialize their product candidates;
- regulatory developments in the United States and foreign countries; and
- the companies ability to obtain and maintain intellectual property protection for their product candidates.

Actual results may differ materially from those contained in the forward-looking statements in this joint proxy statement/ prospectus. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this joint proxy statement/ prospectus. All prior and subsequent written and oral forward-looking statements concerning the merger and other matters addressed in this joint proxy statement/ prospectus and attributable to EPIX or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements included or referred to in this section. Except to the extent required by applicable law or regulation, EPIX does not undertake any obligation to republish revised forward-looking statements to reflect events and circumstances after the date of this joint proxy statement/ prospectus or to reflect the occurrence of unanticipated events.

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RISK FACTORS

You should consider the following risk factors in evaluating whether to vote for the approval and adoption of the merger agreement, the approval of the merger, the approval of the issuance of the EPIX common stock in the merger and/or the approval of the amendment to EPIX s restated certificate of incorporation. These factors should be considered in conjunction with the other information included in this joint proxy statement/ prospectus. References to we, us, our and other first person declarations in these risk factors refer to the operations of the combined company following the completion of the merger. Where we use the words describing either EPIX or Predix, as the case may be, we are referring to such entity as a stand alone company or their respective lines of business and industry as they relate to the combined company.

RISKS RELATING TO THE MERGER

If we are not successful in integrating our organizations, we may not be able to operate efficiently after the merger.

Achieving the benefits of the merger will depend in part on the successful integration of our operations and personnel in a timely and efficient manner. The integration process requires coordination of different development, regulatory, manufacturing and commercial teams, and involves the integration of systems, applications, policies, procedures, business processes and operations. This may be difficult and unpredictable because of possible cultural conflicts and different opinions on scientific and regulatory matters. The combination of EPIX and Predix s organizations may result in greater competition for resources and the elimination of research and development programs that might otherwise be successfully completed. If we cannot successfully integrate our operations and personnel, we may not realize the expected benefits of the merger.

Integrating our companies may divert management s attention away from our operations.

Successful integration of our operations, product candidates and personnel may place a significant burden on our management and our internal resources. The integration will require efforts from each company, including the coordination of their general and administrative functions. For example, integration of administrative functions includes coordinating employee benefits, payroll, financial reporting, purchasing and disclosure functions. Delays in successfully integrating and managing employee benefits could lead to dissatisfaction and employee turnover. Problems in integrating purchasing and financial reporting could result in control issues, including unplanned costs. In addition, the combination of EPIX s and Predix s organizations may result in greater competition for resources and elimination of research and development programs that might otherwise be successfully completed, especially in light of the difference in EPIX s current imaging focus and Predix s current therapeutic focus. The diversion of management s attention and any difficulties encountered in the transition and integration process could result in delays in the companies clinical trial programs and could otherwise harm our business, financial condition and operating results.

We expect to incur significant costs in connection with the merger and in integrating the companies into a single business.

We estimate that EPIX and Predix will incur aggregate direct transaction costs of approximately $5.8 million associated with the merger. In addition, we expect to incur significant costs integrating our operations, product candidates and personnel, which cannot be estimated accurately at this time. These costs may include costs for:

severance;

conversion of information systems;

combining development, regulatory, manufacturing and commercial teams and processes;

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reorganization of facilities; and

relocation or disposition of excess equipment.

If the total costs of the merger exceed our estimates, or benefits of the merger do not exceed the total costs of the merger, the financial results of the combined company could be adversely affected.

We may be unable to repay, repurchase or redeem EPIX s 3.0% Convertible Senior Notes due 2024 if, and when, required.

The entire $100 million outstanding principal amount of EPIX s 3.0% Convertible Senior Notes will become due and payable at maturity in 2024. In addition, noteholders may require us to repurchase these notes at par, plus accrued and unpaid interest, on June 15, 2011, 2014 and 2019 and upon certain other designated events under the notes, which include a change of control of EPIX or termination of trading of EPIX common stock on The NASDAQ Global Market. The definition of change in control set forth in the indenture governing the notes does not include certain mergers and similar transactions that are not deemed a change in control. While we believe that the merger does not constitute a change of control of EPIX under the indenture, we cannot assure you that we will not become obligated to repurchase these notes, in whole or in part, as a result of this merger. Based on the current trading price of EPIX s common stock, we anticipate that in such event most, if not all, of the noteholders would tender their notes for repurchase. We may not have enough funds or be able to arrange for additional financing to repurchase the notes tendered by the holders upon a designated event or otherwise. Any failure to repurchase tendered notes would constitute an event of default under the indenture, which might also constitute a default under the terms of EPIX s other debt. If we are required to repurchase or redeem these notes prior to their maturity, whether as a result of this merger or otherwise, the financial position of the combined company would be materially adversely affected and the anticipated benefits of the merger would be significantly diminished.

EPIX s failure to comply with the initial listing standards of The NASDAQ Global Market will subject its stock to delisting from The NASDAQ Global Market, which listing is a condition to the consummation of the merger.

EPIX s common stock is currently listed for trading on The NASDAQ Global Market. Immediately prior to the consummation of the merger, EPIX will be required to meet the initial listing requirements to maintain the listing and continued trading of its shares on The NASDAQ Global Market. These initial listing requirements are more difficult to achieve than the continued listing requirements under which EPIX is now trading. Based on information currently available to EPIX, EPIX anticipates that it will be unable to meet the $5.00 minimum bid price initial listing requirement at the closing of the merger unless it effects a reverse stock split as discussed in EPIX s Proposal No. 3. If EPIX is unable to satisfy these requirements, NASDAQ will notify EPIX that its stock will be subject to delisting from The NASDAQ Global Market. It is a condition to Predix s obligation to consummate the merger that EPIX maintain the listing of its common stock on The NASDAQ Global Market. In addition, oftentimes a reverse stock split will not result in a trading price for the affected common stock that is proportional to the ratio of the split. EPIX believes that a reverse stock split is in the best interest of the combined company and its stockholders. However, EPIX cannot assure you that the implementation of the reverse stock split will have a positive impact on the price of its common stock.

If we fail to retain key employees, the benefits of the merger could be diminished.

The successful combination of EPIX and Predix will depend in part on the retention of key personnel, including Michael G. Kauffman, M.D., Ph.D, Andrew C.G. Uprichard, M.D. and Kimberlee C. Drapkin, the expected Chief Executive Officer, President and Chief Financial Officer of the combined company, respectively. There can be no assurance that we will be able to retain our key management and scientific personnel. Although Dr. Kauffman and Ms. Drapkin are subject to employment agreements with Predix, the employment agreements may be terminated by either party for any reason and there is no guarantee

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that Dr. Kauffman, Dr. Uprichard or Ms. Drapkin will remain with the combined company. If we fail to retain such key employees, particularly those identified in this joint proxy statement/ prospectus as the expected management of the combined company, we may not realize the anticipated benefits of the merger. The business of each of EPIX and Predix is also subject to risks associated with the retention of key employees which are discussed in greater detail below.

If one or more of the product candidates in the combined company cannot be shown to be safe and effective in clinical trials, is not approvable or not commercially successful, then the benefits of the merger may not be realized.

The combined company will have five product candidates in the clinic and several additional product candidates planned to enter clinical testing in the next several years. All of these product candidates must be rigorously tested in clinical trials, and shown to be safe and effective before the U.S. Food and Drug Administration, or FDA, or its foreign counterparts, will consider them for approval. Failure to demonstrate that one or more of the product candidates is safe and effective, or significant delays in demonstrating safety and efficacy, could diminish the benefits of the merger. All of these product candidates must be approved by a government authority such as the FDA before they can be commercialized. Failure of one or more of the product candidates to obtain such approval, or significant delays in obtaining such approval, could diminish the benefits of the merger. Even if approved for sale, these product candidates must be successfully commercialized. Failure to commercialize successfully one or more of these product candidates could diminish the benefits of the merger.

Because Predix stockholders will receive a fixed number of shares of EPIX common stock in the merger, rather than a fixed value, if the market price of EPIX common stock declines, Predix stockholders will receive consideration in the merger of lesser value and if the market price of EPIX common stock increases, EPIX will pay consideration in the merger of greater value.

The aggregate number of shares of common stock of EPIX to be issued to Predix stockholders is fixed. Accordingly, the aggregate number of shares that Predix stockholders will receive in the merger will not change, even if the market price of EPIX common stock changes. In recent years, the stock market in general, and the securities of biotechnology companies in particular, including EPIX s securities, have experienced extreme price and volume fluctuations. These market fluctuations may adversely affect the market price of EPIX common stock. The market price of EPIX common stock upon and after the consummation of the merger could be lower than the market price on the date of the merger agreement or the current market price, which would decrease the value of the consideration to be received by Predix stockholders in the merger. Predix stockholders should obtain recent market quotations of EPIX common stock before they vote on the merger.

In addition, the market price of EPIX common stock upon and after the consummation of the merger could be higher than the market price on the date of the merger agreement or the current market price. As a result of the fixed number of shares of EPIX common stock issuable in the merger, increases in the market price of the EPIX common stock would increase the value of the consideration payable by EPIX in the merger. EPIX stockholders should obtain recent market quotations of EPIX common stock before they vote on the matters set forth in this joint proxy statement/ prospectus.

The merger may fail to qualify as a reorganization for U.S. federal income tax purposes, resulting in recognition of taxable gain or loss by Predix stockholders in respect of their Predix stock.

EPIX and Predix intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Although the Internal Revenue Service, or IRS, will not provide a ruling on the matter, both EPIX and Predix will, as a condition to closing, obtain a legal opinion from their respective tax counsel that the merger will constitute a reorganization for U.S. federal income tax purposes. These opinions do not bind the IRS, nor do they prevent the IRS from adopting a contrary position. If the merger fails to qualify as a reorganization, each Predix stockholder generally will be treated as exchanging its Predix stock in a fully taxable transaction for

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EPIX common stock and the milestone payment obligation. In addition, the merger would be treated as a sale of all of the assets of Predix to EPIX, with a corporate level tax liability owed by EPIX for the period in which the merger occurs. Such a tax liability may be significant and could have a material adverse effect on the financial position of the combined company.

Failure to complete the merger could adversely affect EPIX s stock price and EPIX s and Predix s future business and operations.

The merger is subject to the satisfaction of various closing conditions, including the approval by both EPIX and Predix stockholders, and neither EPIX nor Predix can guarantee that the merger will be successfully completed. In the event that the merger is not consummated, EPIX and Predix will be subject to many risks, including the costs related to the merger, such as legal, accounting and advisory fees, which must be paid even if the merger is not completed, or the payment of a termination fee under certain circumstances. If the merger is not consummated, the market price of EPIX common stock could decline.

Certain directors and management of EPIX and Predix may have interests that are different from, or in addition to, those of the respective EPIX and Predix stockholders generally.

The directors and management of EPIX and Predix may have interests in the merger that are different from, or are in addition to, those of the respective EPIX and Predix stockholders generally, including the following:

Upon the closing of the merger, Christopher F.O. Gabrieli, Michael Gilman, Ph.D., Mark Leuchtenberger and Gregory D. Phelps, each of whom is a current director of EPIX, is expected to be a member of the combined company s board of directors.

It is anticipated that certain current officers and key employees of EPIX, including Andrew C.G. Uprichard, M.D., Philip Graham, Ph.D., and Brenda Sousa, will be executive officers or key employees of the combined company.

Upon completion of the merger, Brenda Sousa, EPIX s Vice President of Human Resources, is entitled to a bonus of $47,500. In addition, Philip Chase, EPIX s Vice President and General Counsel, is entitled to a bonus of $72,000 upon completion of the merger.

Upon the closing of the merger, the executive officers of Predix, including Michael G. Kauffman, M.D., Ph.D., Silvia Noiman, Ph.D., Oren Becker, Ph.D., Chen Schor and Kimberlee C. Drapkin will become executive officers of the combined company.

EPIX will maintain all rights to indemnification existing in favor of Predix directors and officers for their acts and omissions occurring prior to the completion of the merger and will maintain the directors and officers liability insurance to cover any such liabilities for six years following the completion of the merger.

In addition, you should be aware that Frederick Frank, Michael G. Kauffman, M.D., Ph.D., Patrick J. Fortune, Ph.D. and Ian F. Smith, CPA, ACA will have a relationship with both EPIX and Predix due to their positions as current directors of Predix and future directors of EPIX. Moreover, Mr. Frank, the Chairman of the Predix board of directors, is also the Vice Chairman and a director of Lehman Brothers Inc., Predix s financial advisor in connection with the merger. Lehman Brothers is entitled to a fee of $2.0 million from Predix, all of which is contingent upon consummation of the merger, as well as reimbursement of up to $50,000 of its expenses. Please see the sections entitled The Merger Interests of Predix s Directors and Management in the Merger and Current Management of Predix and Related Information Certain Transactions with Management and Affiliates.

In addition, options, with exercise prices ranging from $0.81 to $2.99, held by each of Michael G. Kauffman, M.D., Ph.D., Silvia Noiman, Ph.D., Oren Becker, Ph.D., Chen Schor and Kimberlee C. Drapkin to purchase 594,679, 308,096, 261,376, 251,213, and 144,996 shares, respectively, will become

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immediately exercisable in full if, within 12 months after the merger, the officer is terminated without cause or terminates his or her employment due to a material change in duties, authority or responsibilities.

These interests may influence these directors in making their recommendation that you vote in favor of the approval and adoption of the merger agreement, the approval of the merger and/or the approval of the amendment to EPIX s restated certificate of incorporation. You should be aware of these interests when you consider the respective Predix and EPIX boards of directors recommendations that you vote in favor of the approval and adoption of the merger agreement, the approval of the merger and/or the approval of the amendment to EPIX s restated certificate of incorporation.

EPIX and Predix stockholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management of the combined company following the merger.

After the merger, the stockholders of each of EPIX and Predix will own a significantly smaller percentage of the combined company than their respective ownership of Predix and EPIX. At the effective time of the merger, EPIX stockholders will collectively own approximately 53% of the outstanding shares of the combined company and Predix stockholders will collectively own approximately 47% of the outstanding shares of the combined company, based on the number of shares of EPIX common stock and Predix common stock and preferred stock outstanding as of the date of the merger agreement. Consequently, stockholders of EPIX and Predix will be able to exercise less influence over the management and policies of the combined company that they currently exercise over the management and policies of their respective companies.

Future sales of common stock by existing EPIX and Predix stockholders may cause the stock price of the combined company to fall.

The market price of our common stock could decline as a result of sales by existing EPIX stockholders and former Predix stockholders in the market after the completion of the merger, or the perception that these sales could occur. These sales might also make it more difficult for the combined company to sell equity securities at an appropriate time and price.

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RISKS RELATING TO THE COMBINED COMPANY

Risks Relating to the Business of EPIX and the Combined Company

Research and Development Risks

EPIX may never receive marketing approval for any of its product candidates in the United States, including Vasovist and EP-2104R.

EPIX is not able to market any of its product candidates in the United States, Europe or in any other jurisdiction without marketing approval from the FDA, the European Commission, or any equivalent foreign regulatory agency. The regulatory process to obtain marketing approval for a new drug or biologic takes many years and requires the expenditure of substantial resources. This process can vary substantially based on the type, complexity, novelty and indication of the product candidate involved.

Although the European Medicines Agency, or the EMEA, granted approval of Vasovist for all 25 member states of the E.U. in October 2005, Vasovist has not been approved in the United States. In December 2003, EPIX submitted a new drug application, or NDA, for Vasovist to the FDA, and in June 2004, EPIX s development partner Schering AG submitted a Marketing Authorization Application, to the EMEA. In January 2005, EPIX received an approvable letter from the FDA for Vasovist in which the FDA requested additional clinical trials prior to approval. In May 2005, EPIX submitted a response to the FDA approvable letter, which was accepted by the FDA as a complete response in June 2005. In November 2005, the FDA provided EPIX with a second approvable letter. Although no safety or manufacturing issues were raised in the second approvable letter, the second approvable letter indicated that at least one additional clinical trial and a re-read of images obtained in certain previously completed Phase III trials will be necessary before the FDA could approve Vasovist. EPIX believes that these trials would require a substantial period of time to complete. EPIX has had two meetings with the FDA since receiving the second approvable letter to discuss the path forward for Vasovist in the United States. After considering the parameters of the additional clinical trials requested by the FDA, EPIX filed a formal appeal with the FDA asking the FDA to approve Vasovist and to utilize an advisory committee as part of the appeal process. The approval, timeliness of approval or labeling of Vasovist are subject to significant uncertainties related to a number of factors, including the outcome of the appeal, the process of reaching agreement with the FDA on the clinical data and on any clinical trial protocol required for regulatory approval of Vasovist, a re-read, or reanalysis, of images obtained from completed Phase III trials by a new group of radiologists, the timing and process of conducting any clinical trials that may be ultimately required if the appeal is denied, obtaining the desired outcomes of any required clinical trials and the FDA s review process and conclusions regarding any additional Vasovist regulatory submissions. EPIX cannot assure you that its appeal will be successful or that EPIX will be able to reach agreement with the FDA on the design or clinical endpoints required for additional clinical trials or re-read of images from the completed Phase III trials that may be required if the appeal is denied. Further, EPIX cannot assure you that any such agreed upon clinical trials will be feasible for EPIX to conduct or whether such trials will be completed in a commercially reasonable timeframe, if at all. Any further clinical trials that are required could take several years to complete.

If the FDA does not approve Vasovist, then EPIX will not receive revenues based on sales of Vasovist in the United States. Even if ultimately approved, EPIX does not expect revenues from the commercial sales of any of its product candidates, other than Vasovist, for at least several years.

EPIX completed a Phase IIa clinical trial of EP-2104R. Schering AG had an option to exclusively license EP-2104R, which it declined to exercise. As a result of Schering AG deciding not to exercise this option, EPIX intends to pursue a collaboration for the continued development of EP-2104R with other potential partners. The future clinical development plan of EP-2104R is uncertain at this time, and the timing and number of future clinical trials depends upon many factors, including EPIX s ability to enter into a collaboration to continue the development of EP-2104R. If EPIX is unable to find a new collaborative partner, EPIX may bear the expenses of further clinical development itself, which expenses would be significant. Regardless, the FDA, the EMEA and other regulatory agencies to which EPIX or its

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partners submit applications for marketing authorization may not agree that EPIX s product candidate is safe and effective and may not approve EPIX s product candidate, in which case EPIX s ability to receive any revenues, milestone payments or royalty payments related to EP-2104R will be significantly reduced.

The relevant regulatory authorities may not approve any of EPIX s applications for marketing authorization relating to any of its product candidates, including Vasovist and EP-2104R, or additional applications for or variations to marketing authorizations that EPIX may make in the future as to these or other product candidates. Among other things, EPIX has had only limited experience in preparing applications and obtaining regulatory approvals. If approval is granted, it may be subject to limitations on the indicated uses for which the product candidate may be marketed or contain requirements for costly post-marketing testing and surveillance to monitor safety or efficacy of the product candidate. If approval of an application to market product candidates is not granted on a timely basis or at all, or if EPIX is unable to maintain its approval, EPIX s business may be materially harmed.

EPIX is currently focusing its development efforts on only two product candidates and one research program and will have limited prospects for successful operations if its two lead product candidates do not prove successful in clinical trials or if its only research program does not produce another product candidate suitable for clinical trials.

As a result of the FDA s second approvable letter regarding Vasovist, EPIX eliminated approximately 50% of its workforce in January 2006. As part of this reorganization, EPIX plans to focus its resources primarily on the development of its lead product candidates, Vasovist and EP-2104R. Accordingly, EPIX has decided to cease work on the majority of its research projects related to imaging. EPIX continues to allocate resources to one high-priority research project. EPIX s efforts may not lead to commercially successful products for a number of reasons, including the inability to be proven safe and effective in clinical trials, the lack of regulatory approvals or obtaining regulatory approvals that are narrower than EPIX seeks, inadequate financial resources to complete the development and commercialization of EPIX s product candidates or their lack of acceptance in the marketplace. Given EPIX s limited focus on two lead product candidates and only one research program, if Vasovist and EP-2104R do not prove successful in clinical trials or are not commercialized for any reason, EPIX will have only one operational research program from which to seek additional product candidates. If EPIX is not able to identify additional product candidates from this single research program, it may be required to suspend or discontinue its operations and you could lose your entire investment in EPIX.

If EPIX s clinical trials are not successful, EPIX may not be able to develop and commercialize its product candidates.

To obtain regulatory approvals for the commercial sale of EPIX s potential products, EPIX and its partners will be required to complete extensive clinical trials in humans to demonstrate the safety and efficacy of its product candidates. Vasovist and EP-2104R are currently EPIX s only product candidates that have undergone human clinical trials and EPIX cannot be certain that any of its other research projects will yield a product candidate suitable for substantial human clinical testing.

With respect to both EPIX s current product candidates in human clinical trials and its research product candidates which may be suitable for testing in human clinical trials at some point in the future, EPIX may not be able to commence or complete the required clinical trials in any specified time period, or at all, either because the FDA or other regulatory agencies object, because EPIX is unable to attract or retain clinical trial participants, or for other reasons.

Even if EPIX completes a clinical trial of one of its potential products, the data collected from the clinical trial may not demonstrate that its product candidate is safe or effective to the extent required by the FDA, the EMEA, or other regulatory agencies to approve the potential product candidate, or at all. For example, in January and November 2005, the FDA informed EPIX that the clinical efficacy data for Vasovist that EPIX submitted in connection with its NDA was not adequate for approval.

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The results from pre-clinical testing of a product candidate that is under development may not be predictive of results that will be obtained in human clinical trials. In addition, the results of early human clinical trials may not be predictive of results that will be obtained in larger scale, advanced-stage clinical trials. Furthermore, EPIX, one of its collaborators, or a regulatory agency with jurisdiction over the trials may suspend clinical trials at any time if the patients participating in such trials are being exposed to unacceptable health risks, or for other reasons.

The timing of completion of clinical trials is dependent in part upon the rate of enrollment of patients. Patient accrual 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 competitive clinical trials, and the availability of alternative treatments. Delays in planned patient enrollment may result in increased costs and prolonged clinical development. In addition, patients may withdraw from a clinical trial for a variety of reasons. If EPIX fails to accrue and maintain the number of patients into one of its clinical trials for which the clinical trial was designed, the statistical power of that clinical trial may be reduced which would make it harder to demonstrate that the product candidates being tested in such clinical trial are safe and effective.

Regulatory authorities, clinical investigators, institutional review boards, data safety monitoring boards and the hospitals at which EPIX s clinical trials are conducted all have the power to stop EPIX s clinical trials prior to completion. If EPIX s trials are not completed, EPIX would be unable to show the safety and efficacy required to obtain marketing authorization for its product candidates.

EPIX must receive government regulatory approval for its product candidates before they can be marketed and sold in the United States or in other countries and this approval process is uncertain, time-consuming and expensive.

Vasovist and EP-2104R are regulated by the FDA as drugs. Under the Food, Drug and Cosmetic Act and the FDA s implementing regulations, the FDA regulates the research, development, manufacture and marketing, among other things, of pharmaceutical products. The process required by the FDA before Vasovist and EPIX s other product candidates may be marketed in the United States typically involves the performance of pre-clinical laboratory and animal tests; submission of an investigational new drug application, or IND; completion of human clinical trials; submission of an NDA to the FDA; and FDA approval of an NDA.

This regulatory approval process is lengthy and expensive. Although some of EPIX s employees have experience in obtaining regulatory approvals, EPIX has only limited experience in filing or pursuing applications necessary to gain regulatory approvals. Pre-clinical testing of EPIX s product development candidates is subject to good laboratory practices, as prescribed by the FDA, and the manufacture of any products developed by EPIX will be subject to current good manufacturing practices, as prescribed by the FDA, or cGMP. EPIX may not obtain the necessary FDA approvals and subsequent approvals in a timely manner, if at all. EPIX cannot be sure as to the length of the clinical trial period or the number of patients that will be required to be tested in the clinical trials in order to establish the safety and efficacy of Vasovist for regulatory approval in the United States or any of its future product candidates. For example, EPIX has received two approvable letters from the FDA and has had two meetings with the FDA to discuss the path forward for Vasovist in the United States and EPIX has filed a formal appeal of the FDA s decision not to approve Vasovist without data from additional clinical trials. EPIX cannot predict whether the appeal or additional trials would be completed timely or successfully. EPIX s clinical trials may not be successful and EPIX may not complete them in a timely manner. EPIX could report serious side effects as the clinical trials proceed. EPIX s results from early clinical trials may not predict results that it obtains in later clinical trials, even after promising results in earlier trials. The rate of completion of EPIX s clinical trials depends upon, among other things, the rate of patient enrollment and subsequent blinded reading of images and data analysis.

Furthermore, EPIX, or the FDA or other regulatory authorities may suspend or terminate clinical trials at any time, including terminating clinical trials for safety reasons. In addition, the FDA may suggest

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or require alterations to clinical trials at any time. For example, in September 2001, after discussions with the FDA, EPIX expanded its initial target indication for Vasovist from one specific body region, the aortoiliac region, to a broader indication that included the entire body s vascular system, except for the heart. This expansion required EPIX to add two new clinical trials to its then existing Phase III clinical trial program; one to determine the efficacy of Vasovist-enhanced magnetic resonance angiography for the detection of vascular disease in the renal arteries, and another to determine the efficacy of Vasovist-enhanced magnetic resonance angiography for the detection of vascular disease in the pedal arteries. Although providing EPIX with greater market potential for the sale of Vasovist upon approval, this change to the Phase III clinical trial program and the associated delay in the startup of new clinical centers resulted in an approximate 15-month delay in EPIX s NDA submission and an increase in costs associated with the program. If EPIX does not successfully complete clinical trials for its product candidates, it will not be able to market these product candidates.

In addition, EPIX may encounter unanticipated delays or significant costs in its efforts to secure necessary approvals. EPIX s analysis of data obtained from pre-clinical and clinical activities is subject to confirmation and interpretation by regulatory authorities which could delay, limit or prevent FDA regulatory approval. In addition, the FDA may require EPIX to modify its future clinical trial plans or to conduct additional clinical trials in ways that it cannot currently anticipate, resulting in delays in its obtaining regulatory approval. Delays in obtaining government regulatory approval could adversely affect EPIX s, or its partner s, marketing as well as the ability to generate significant revenues from commercial sales.

Future U.S. legislative or administrative actions also could prevent or delay regulatory approval of EPIX s product candidates. Even if EPIX obtains regulatory approvals, they may include significant limitations on the indicated uses for which EPIX may market a product. A marketed product also is subject to continual FDA and other regulatory agency review and regulation. Later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. Further, many academic institutions and companies conducting research and clinical trials in the magnetic resonance imaging, or MRI, contrast agent field are using a variety of approaches and technologies. If researchers obtain any adverse results in pre-clinical studies or clinical trials, it could adversely affect the regulatory environment for MRI contrast agents in general. In addition, if EPIX obtains marketing approval, the FDA may require post-marketing testing and surveillance programs to monitor the product s efficacy and side effects. Results of these post-marketing programs may prevent or limit the further marketing of the monitored product. If EPIX, or its partners, such as Schering AG, cannot successfully market EPIX s product candidates, EPIX will not generate sufficient revenues to achieve or maintain profitability.

EPIX and its strategic partners are also subject to numerous and varying foreign regulatory requirements governing the design and conduct of clinical trials and the manufacturing and marketing of EPIX s product candidates. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval set forth above and EPIX may not obtain foreign regulatory approvals on a timely basis, if at all, thereby compromising its ability to market its product candidates abroad.

Gadolinium-based imaging agents, such as Vasovist and EP-2104R, may cause adverse side effects which could limit EPIX s ability to receive approval for these product candidates and its ability to effectively market these product candidates, if approved.

EPIX s Vasovist and EP-2104R, both MRI contrast drugs, contain gadolinium. In May 2006, the Danish Medicines Agency announced that it was investigating a possible link between the use of Omniscan, an imaging agent containing gadolinium, and the development of a very rare skin disease in 25 patients with severely impaired renal function who had been administered the imaging agent. Although the Danish Medicines Agency stated that a causal relationship between Omniscan and the skin changes had not been documented, they are conducting further investigations with respect to all MRI contrast media containing gadolinium. Although EPIX has reviewed its safety databases for Vasovist and

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EP-2104R and has found no instances of this rare skin disease, its databases may be too small to show such an effect, if it exists. In the event gadolinium-based imaging agents such as Vasovist and EP-2104R are linked to this very rare skin disease or other unanticipated side effects, such safety concerns could have a material adverse affect on EPIX s ability to obtain marketing approval for Vasovist and/or EP-2104R or any such approval for use may be revoked, or could materially harm EPIX s and its partners ability to successfully market Vasovist and/or EP-2104R.

If EPIX fails to comply with the extensive regulatory requirements to which it and its product candidates are subject, EPIX s product candidates could be subject to restrictions or withdrawal from the market and EPIX could be subject to penalties.

EPIX is subject to extensive U.S. and foreign governmental regulatory requirements and lengthy approval processes for its product candidates. The development and commercial use of EPIX s product candidates will be regulated by numerous federal, state, local and foreign governmental authorities in the United States, including the FDA and foreign regulatory agencies. The nature of EPIX s research and development and manufacturing processes requires the use of hazardous substances and testing on certain laboratory animals. Accordingly, EPIX is subject to extensive federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes as well as the use of and care for laboratory animals. If EPIX fails to comply or if an accident occurs, EPIX may be exposed to legal risk and be required to pay significant penalties or be held liable for any damages that result. Such liability could exceed EPIX s financial resources. Furthermore, current laws could change and new laws could be passed that may force EPIX to change its policies and procedures, an event which could impose significant costs on EPIX.

EPIX is required to maintain pharmacovigilance systems for collecting and reporting information concerning suspected adverse reactions to its product candidates. In response to pharmacovigilance reports, regulatory authorities may initiate proceedings to revise the prescribing information for EPIX s product candidates or to suspend or revoke its marketing authorizations. Procedural safeguards are often limited, and marketing authorizations can be suspended with little or no advance notice.

Both before and after approval of a product, quality control and manufacturing procedures must conform to cGMP. Regulatory authorities, including the EMEA and the FDA, periodically inspect manufacturing facilities to assess compliance with cGMP. Accordingly, EPIX and its contract manufacturers will need to continue to expend time, funds, and effort in the area of production and quality control to maintain cGMP compliance.

In addition to regulations adopted by the EMEA, the FDA, and other foreign regulatory authorities, EPIX is also subject to regulation under the Occupational Safety and Health Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, and other federal, state, and local regulations.

In addition, the testing, manufacturing, labeling, advertising, promotion, export and marketing, among other things, of EPIX s product candidates, both before and after approval, are subject to extensive regulation by governmental authorities in the United States, Europe and elsewhere throughout the world. Failure to comply with the laws administered by the FDA, the EMEA, or other governmental authorities could result in any of the following:

delay in approval or refusal to approve a product candidate;

product candidate recall or seizure;

interruption of production;

operating restrictions;

warning letters;

injunctions;

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criminal prosecutions; and

unanticipated expenditures.

EPIX s research and development efforts may not result in product candidates appropriate for testing in human clinical trials.

EPIX has historically spent significant resources on research and development and pre-clinical studies of product candidates. However, these efforts may not result in the development of product candidates appropriate for testing in human clinical trials. For example, EPIX s research may result in product candidates that are not expected to be effective in treating diseases or may reveal safety concerns with respect to product candidates. In connection with EPIX s recent restructuring, it postponed or terminated several research and development programs, and it may postpone or terminate research and development of a product candidate or a program at any time for any reason such as the safety or effectiveness of the potential product, allocation of resources or unavailability of qualified research and development personnel. The failure to generate high-quality research and development candidates would negatively impact EPIX s ability to advance product candidates into human clinical testing and ultimately, negatively impact its ability to market and sell products.

EPIX has have a limited manufacturing capability and it intends to outsource manufacturing of Vasovist to third parties, who may not perform as EPIX expects.

EPIX does not have, nor does it currently have plans to develop, full-scale manufacturing capability for Vasovist. While EPIX has manufactured small amounts of Vasovist for research and development efforts, it relies on, and it intends to continue to rely on, Tyco/ Mallinckrodt as the primary manufacturer of Vasovist for any future human clinical trials and commercial use. Together with Schering AG, EPIX is considering alternative manufacturing arrangements for Vasovist for commercial use, including the transfer of manufacturing to Schering AG. In the event that Tyco/ Mallinckrodt fails to fulfill its manufacturing responsibilities satisfactorily, Schering AG has the right to purchase Vasovist from a third party or to manufacture the compound itself. However, either course of action could materially delay the manufacture and development of Vasovist. Schering AG may not be able to find an alternative manufacturer. In addition, Schering AG may not be able to manufacture Vasovist itself in a timely manner or in sufficient quantities. If EPIX experiences a delay in manufacturing, it could result in a delay in the approval or commercialization of Vasovist and have a material adverse effect on its business, financial condition and results of operations.

Technology Risks

If MRI manufacturers are not able to enhance their hardware and software sufficiently, EPIX will not be able to complete development of its contrast agent for the evaluation of cardiac indications.

Although MRI hardware and software is sufficient for the evaluation of non-coronary vascular disease, which is EPIX s initial target indication, EPIX believes that the technology is not as advanced for cardiac applications. EPIX s initial NDA filing for Vasovist is related to non-coronary vascular disease. Based on feasibility studies EPIX completed in 2001, however, the imaging technology available for cardiac applications, including coronary angiography and cardiac perfusion imaging, was not developed to the point where there was clear visualization of the cardiac region due to the effects of motion from breathing and from the beating of the heart. In 2004, EPIX initiated Phase II feasibility trials of Vasovist for cardiac indications using available software and hardware that can be adapted for coronary and cardiac perfusion data acquisition, and preliminary review of the data indicates that EPIX has not resolved the technical issues related to this use of Vasovist. EPIX has collaborated with a number of leading academic institutions and with GE Healthcare, Siemens Medical Systems and Philips Medical Systems to help optimize cardiac imaging with Vasovist. EPIX does not know when, or if, these techniques will enable Vasovist to provide clinically relevant images in cardiac indications. If MRI device manufacturers are not able to enhance their scanners to perform clinically useful cardiac imaging, EPIX will not be able to

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complete its development activities of Vasovist for that application, thereby reducing the potential market for a product in this area.

EPIX depends on exclusively licensed technology from the Massachusetts General Hospital and if EPIX loses this license, it is unlikely it could obtain this technology elsewhere, which would have a material adverse effect on EPIX s business.

Under the terms of a license agreement that EPIX has with the Massachusetts General Hospital, or MGH, EPIX is the exclusive licensee to certain technology, which relate to royalties it receives and to Vasovist. The license agreement imposes various commercialization, sublicensing, royalty and other obligations on EPIX. The license agreement expires on a country-by-country basis when the patents covered by the license agreement expire. For example, the patents covered by this license agreement are currently expected to expire in November 2006, although the life of these patents may be extended. One of these patents has been extended through Supplementary Protection Certificates for Primovist through May 2011 in certain European countries. The license agreement does not contain a renewal provision. If EPIX fails to comply with these and other requirements, its license could convert from exclusive to nonexclusive, or terminate entirely. It is unlikely that EPIX would be able to obtain this technology elsewhere. Any such event would mean that EPIX would not receive royalties from Bracco for MultiHance or Schering AG for Primovist, and that EPIX or Schering AG could not sell Vasovist, either of which would have a material adverse effect on EPIX s business, financial condition and results of operations. Currently, EPIX believes it is in compliance with the terms of the license agreement and its does not have any reason to believe that this license may be terminated.

EPIX depends on patents and other proprietary rights, and if they fail to protect its business, EPIX may not be able to compete effectively.

The protection of EPIX s proprietary technologies is material to its business prospects. EPIX pursues patents for its product candidates in the United States and in other countries where it believes that significant market opportunities exist. EPIX owns or has an exclusive license to patents and patent applications on aspects of its core technology as well as many specific applications of this technology. These patents relate to MRI signal generation technology, Vasovist, EP-2104R and EPIX s other research projects and include method of use patents. Some of EPIX s patents related to Vasovist will expire in 2006. Other patents related to Vasovist will not expire until 2015. Protection for Vasovist manufacturing processes in the United States will not expire until 2017. Patents related to certain methods of using Vasovist will not expire until 2021. A patent related to EP-2104R will not expire until 2022. If all of EPIX s pending patent applications issue with claims substantially similar to those currently set forth in such applications, further patent protection for EP-2104R may not expire until 2022. Even though EPIX holds numerous patents and has made numerous patent applications, because the patent positions of pharmaceutical and biopharmaceutical firms, including EPIX s patent positions, generally include complex legal and factual questions, EPIX s patent positions remain uncertain. For example, because most patent applications are maintained in secrecy for a period after filing, EPIX cannot be certain that the named applicants or inventors of the subject matter covered by its patent applications or patents, whether directly owned or licensed to EPIX, were the first to invent or the first to file patent applications for such inventions. Third parties may oppose, challenge, infringe upon, circumvent or seek to invalidate existing or future patents owned by or licensed to EPIX. A court or other agency with jurisdiction may find EPIX s patents invalid, not infringed or unenforceable and EPIX cannot be sure that patents will be granted with respect to any of its pending patent applications or with respect to any patent applications filed by it in the future. Even if EPIX has valid patents, these patents still may not provide sufficient protection against competing products or processes. If EPIX is unable to successfully protect its proprietary methods and technologies, or if its patent applications do not result in issued patents, EPIX may not be able to prevent other companies from practicing its technology and, as a result, its competitive position may be harmed.

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EPIX may need to initiate lawsuits to protect or enforce its patents and other intellectual property rights, which could result in its incurrence of substantial costs and which could result in the forfeiture of these rights.

EPIX may need to bring costly and time-consuming litigation against third parties in order to enforce its issued patents, protect its trade secrets and know how, or to determine the enforceability, scope and validity of proprietary rights of others. In addition to being costly and time-consuming, such lawsuits could divert management s attention from other business concerns. These lawsuits could also result in the invalidation or a limitation in the scope of EPIX s patents or forfeiture of the rights associated with its patents or pending patent applications. EPIX may not prevail and a court may find damages or award other remedies in favor of an opposing party in any such lawsuits. During the course of these suits, there may be public announcements of the results of hearings, motions and other interim proceedings or developments in the litigation. Securities analysts or investors may perceive these announcements to be negative, which could cause the market price of EPIX s stock to decline. In addition, the cost of such litigation could have a material adverse effect on EPIX s business and financial condition.

Other rights and measures that EPIX relies upon to protect its intellectual property may not be adequate to protect its products and services and could reduce its ability to compete in the market.

In addition to patents, EPIX relies on a combination of trade secrets, copyright and trademark laws, non-disclosure agreements and other contractual provisions and technical measures to protect its intellectual property rights. While EPIX requires employees, collaborators, consultants and other third parties to enter into confidentiality and/or non-disclosure agreements, where appropriate, any of the following could still occur:

the agreements may be breached;

EPIX may have inadequate remedies for any breach;

proprietary information could be disclosed to EPIX s competitors; or

others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to EPIX s trade secrets or disclose such technologies.

If, as a result of the foregoing or otherwise, EPIX s intellectual property is disclosed or misappropriated, it would harm EPIX s ability to protect its rights and its competitive position. Moreover, several of EPIX s management and scientific personnel were formerly associated with other pharmaceutical and biotechnology companies and academic institutions. In some cases, these individuals are conducting research in similar areas with which they were involved prior to joining EPIX. As a result, EPIX, as well as these individuals, could be subject to claims of violation of trade secrets and similar claims.

EPIX s success will depend partly on its ability to operate without infringing the intellectual property rights of others, and if EPIX is unable to do so, it may not be able to sell its products.

EPIX s commercial success will depend, to a significant degree, on its ability to operate without infringing upon the patents of others in the United States and abroad. There may be pending or issued patents held by parties not affiliated with EPIX relating to technologies EPIX uses in the development or use of certain of its contrast agents. If any judicial or administrative proceeding upholds these or any third- party patents as valid and enforceable, EPIX could be prevented from practicing the subject matter claimed in such patents, or would be required to obtain licenses from the owners of each such patent, or to redesign its product candidates or processes to avoid infringement. For example, in November 2003, EPIX entered into an intellectual property agreement with Dr. Martin R. Prince, an early innovator in the field of magnetic resonance angiography, relating to dynamic magnetic resonance angiography, which involves capturing magnetic resonance angiography images during the limited time, typically 30 to 60 seconds, available for imaging with extracellular agents. Under the terms of the intellectual property agreement, Dr. Prince granted EPIX certain discharges, licenses and releases in connection with the historic and

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future use of Vasovist by EPIX and agreed not to sue EPIX for intellectual property infringement related to the use of Vasovist. In consideration of Dr. Prince entering into the agreement, EPIX agreed to pay him an upfront fee of $850,000 and royalties on sales of Vasovist consistent with a non-exclusive early stage academic license and agreed to deliver to him 132,000 shares of EPIX s common stock, with a value of approximately $2.3 million based on the closing price of EPIX s common stock on the date of the agreement. In addition, EPIX agreed to supply Dr. Prince with approximately $140,000 worth of Vasovist. If EPIX is unable to obtain a required license on acceptable terms, or are unable to design around these or any third-party patents, it may be unable to sell its products, which would have a material adverse effect on its business.

If EPIX fails to get adequate levels of reimbursement from third-party payors for its product candidates after they are approved in the United States and abroad, EPIX may have difficulty commercializing its product candidates.

EPIX believes that reimbursement in the future will be subject to increased restrictions, both in the United States and in foreign markets. EPIX believes that the overall escalating cost of medical products and services has led to, and will continue to lead to, increased pressures on the health care industry, both foreign and domestic, to reduce the cost of products and services, including products offered by it. There can be no assurance, in either the United States or foreign markets, that third-party reimbursement will be available or adequate, that current reimbursement amounts will not be decreased in the future or that future legislation, regulation, or reimbursement policies of third-party payors will not otherwise adversely affect the demand for EPIX s product candidates or its ability to sell its product candidates on a profitable basis, particularly if MRI exams enhanced with EPIX s contrast agents are more expensive than competing vascular imaging techniques that are equally effective. The unavailability or inadequacy of third-party payor coverage or reimbursement could have a material adverse effect on EPIX s business, financial condition and results of operations.

EPIX could be adversely affected by changes in reimbursement policies of governmental or private healthcare payors, particularly to the extent any such changes affect reimbursement for procedures in which its product candidates would be used. Failure by physicians, hospitals and other users of EPIX s product candidate to obtain sufficient reimbursement from third-party payors for the procedures in which EPIX s product candidate would be used or adverse changes in governmental and private third-party payors policies toward reimbursement for such procedures may have a material adverse effect on EPIX s ability to market its product candidate and, consequently, it could have an adverse effect on EPIX s business, financial condition and results of operations. If EPIX obtains the necessary foreign regulatory approvals, market acceptance of its product candidates in international markets would be dependent, in part, upon the availability of reimbursement within prevailing healthcare payment systems. Reimbursement and healthcare payment systems in international markets vary significantly by country, and include both government sponsored health care and private insurance. EPIX and its strategic partners intend to seek international reimbursement approvals, although EPIX cannot assure you that any such approvals will be obtained in a timely manner, if at all, and failure to receive international reimbursement approvals could have an adverse effect on market acceptance of EPIX s product candidate in the international markets in which such approvals are sought.

If EPIX is unable to attract and retain key management and other personnel, it would hurt EPIX s ability to compete.

EPIX s future business and operating results depend in significant part upon its ability to attract and retain qualified directors, senior management and key technical personnel. In September 2005, the EPIX board of directors appointed Michael J. Astrue as Interim Chief Executive Officer. Mr. Astrue replaced Michael Webb, who resigned from EPIX and its board of directors in September 2005. Mr. Astrue resigned as Interim Chief Executive Officer on May 5, 2006. In addition, EPIX s Chief Financial Officer resigned in July 2005. Andrew C.G. Uprichard, M.D., EPIX s President and Chief Operating Officer, is currently acting as EPIX s principal executive officer and EPIX currently has no Chief Financial Officer

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and its Executive Director, Finance, is currently serving as its principal financial and accounting officer. In addition, Mr. Pelletier and EPIX have agreed that Mr. Pelletier will resign as EPIX s Executive Director of Finance in August 2006. Christopher F.O. Gabrieli, the Chairman of the EPIX board of directors, is a candidate for the Governor of the Commonwealth of Massachusetts, the general election for which is scheduled in November 2006. If elected, Mr. Gabrieli will step down from the EPIX board of directors. EPIX s inability to attract and retain qualified individuals to these positions and others, the loss of any of EPIX s key management and other personnel, or their failure to perform their current positions could have a material adverse effect on EPIX s business, financial condition and results of operations, and its ability to achieve its business objectives or to operate or compete in its industry may be seriously impaired. Competition for personnel is intense and EPIX may not be successful in attracting or retaining such personnel. If EPIX were to lose these employees to its competition, it could spend a significant amount of time and resources to replace them, which would impair its research and development or commercialization efforts. If the merger is not consummated, EPIX must compete with companies that have greater resources and/or superior product candidates or products to rebuild its senior management team and attract other personnel.

Business Risks

EPIX currently depends on its strategic collaborators for support in product development and the regulatory approval process and, in the future, will depend on them for product marketing support as well. These efforts could be materially harmed if EPIX experiences problems with its collaborators.

EPIX depends on strategic collaborators for support in product development and the regulatory approval process as well as a variety of other activities including manufacturing, marketing and distribution of its product candidate in the United States and abroad, when, and if, the FDA and corresponding foreign agencies approve its product candidates for marketing. To date, EPIX has entered into strategic alliances and collaborations with Schering AG, Tyco/ Mallinckrodt, GE Healthcare, Philips Medical Systems and Siemens Medical Systems. Three of EPIX s key agreements include two collaboration agreements with Schering AG to perform joint research and to develop and commercialize Vasovist and other MRI vascular agents worldwide, and an agreement with Tyco/ Mallinckrodt granting Tyco/ Mallinckrodt rights to enter into an agreement with Schering AG to manufacture Vasovist for clinical development and commercial use. EPIX may not receive milestone payments from these alliances should Vasovist fail to meet certain performance targets in development and commercialization. On July 12, 2006, Schering AG notified EPIX that it decided not to exercise its option to exclusively license EP-2104R. As a result, EPIX intends to pursue a collaboration for the continued development of EP-2104R with new potential partners. Further, EPIX s receipt of revenues from strategic alliances is affected by the level of efforts of its collaborators. EPIX s collaborators may not devote the resources necessary to complete development and commence marketing of Vasovist, EP-2104R or other product candidates in their respective territories, or they may not successfully market Vasovist, EP-2104R or other product candidates. In addition, Schering AG and Tyco/ Mallinckrodt currently manufacture imaging agents for other technologies that will compete against Vasovist, and Schering AG will be responsible for setting the price of the product candidate worldwide. Accordingly, Schering AG may not set prices in a manner that maximizes revenues for EPIX. EPIX s failure to receive future milestone payments, or a reduction or discontinuance of efforts by its partners would have a material adverse effect on EPIX s business, financial condition and results of operations.

Furthermore, EPIX s collaboration agreement with Schering AG may be terminated early under certain circumstances, including if there is a material breach of the agreement by either party. In October 2005, EPIX announced that it had entered into an amendment to its research collaboration agreement with Schering AG. This amendment narrowed the definition of the field of collaboration to exclude from the research collaboration certain specific types of imaging technology, including certain nanotechnology-based imaging agents. This research collaboration concluded in May 2006. EPIX is in discussions, and expects to continue discussions, with Schering AG regarding the disposition of the research products under this research collaboration. While the research agreement is separate from EPIX s agreement with

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Schering AG relating to Vasovist, EPIX cannot predict how the disposition or winding down of the individual research programs will occur, or whether it will be able to take forward any of these research programs itself or find alternative partners for these programs.

In addition, EPIX intends to seek additional collaborations with third parties, particularly for the continued development of EP-2104R, who may negotiate provisions that allow them to terminate their agreements with EPIX prior to the expiration of the negotiated term under certain circumstances. EPIX is substantially dependent upon Schering AG to commercialize Vasovist, EPIX s lead product candidate, in the United states and Europe. If Schering AG or any other third-party collaborator were to terminate its agreements with EPIX, if EPIX is unable to negotiate an acceptable agreement with Schering AG relating to a new research agreement or if Schering AG or any other third-party collaborator otherwise fail to perform its obligations under EPIX s collaboration or to complete them in a timely manner, EPIX could lose significant revenue. If EPIX is unable to enter into future strategic alliances with capable partners on commercially reasonable terms, it may delay the development and commercialization of future product candidates and could possibly postpone them indefinitely.

In addition, Bayer AG recently extended an offer to acquire all of the outstanding shares of Schering AG. Although EPIX has not yet determined the impact this acquisition may have on its relationship with Schering AG or the marketing of Vasovist, if the strategy of Bayer AG and Schering AG after the acquisition differs from that of Schering AG s current strategy with respect to the marketing of Vasovist, EPIX s expectations regarding the marketing of Vasovist could be negatively impacted which could have a material adverse effect on EPIX s business.

In addition, EPIX relies on certain of its collaborators, such as GE Healthcare, Siemens Medical Systems and Philips Medical Systems, to develop software that can be used to enhance or suppress veins or arteries from Vasovist-enhanced magnetic resonance angiography images. Although not required for clinical use of Vasovist, the ability to separate veins from arteries using Vasovist-enhanced magnetic resonance angiography may be useful to clinicians in reading Vasovist-enhanced images for the evaluation of vascular disease. Therefore, if EPIX s collaborators do not develop or implement the required software successfully, some clinicians may not be able to easily interpret the information provided from Vasovist-enhanced images and may not be inclined to use the product candidate. EPIX s inability to market Vasovist successfully to clinicians would have a material adverse effect on EPIX s business.

EPIX s stock price is volatile. It is possible that you may lose all or part of your investment.

The market prices of the capital stock of medical technology companies have historically been very volatile and the market price of the shares of EPIX s common stock fluctuates. The market price of EPIX s common stock is affected by numerous factors, including:

- actual or anticipated fluctuations in EPIX s operating results;
- announcements of technological innovation or new commercial products by EPIX or its competitors;
- new collaborations entered into by EPIX or its competitors;
- developments with respect to proprietary rights, including patent and litigation matters;
- results of pre-clinical studies and clinical trials;
- the timing of EPIX s achievement of regulatory milestones;
- conditions and trends in the pharmaceutical and other technology industries;
- adoption of new accounting standards affecting such industries;
- changes in financial estimates by securities analysts;

perceptions of the value of corporate transactions; and

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degree of trading liquidity in EPIX s common stock and general market conditions.

During the period from January 1, 2006 through July 13, 2006, the closing price of EPIX s common stock ranged from $5.02 to $2.77. The last reported closing price for EPIX s common stock on March 31, 2006, the last trading day before the public announcement of the merger, was $3.50 and it was $4.58 on July 13, 2006. Significant declines in the price of EPIX s common stock could impede EPIX s ability to obtain additional capital, attract and retain qualified employees and reduce the liquidity of its common stock.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have particularly affected the market prices for the common stock of similarly staged companies. These broad market fluctuations may adversely affect the market price of EPIX s common stock. In the past, following periods of volatility in the market price of a particular company s securities, shareholders have often brought class action securities litigation against that company. Such litigation could result in substantial costs and a diversion of management s attention and resources. For example, in January 2005, a securities class action was filed in U.S. District Court for the District of Massachusetts against EPIX and certain of its officers on behalf of persons who purchased EPIX s common stock between July 10, 2003 and January 14, 2005. The complaint alleged that EPIX and the other defendants violated the Securities Exchange Act of 1934, as amended, by issuing a series of materially false and misleading statements to the market throughout the class period, which statements had the effect of artificially inflating the market price of EPIX s securities. In January 2006, the U.S. District Court for the District of Massachusetts granted EPIX s Motion to Dismiss for Failure to Prosecute the shareholder class action lawsuit against EPIX. The dismissal was issued without prejudice after a hearing, which dismissal does not prevent another suit to be brought based on the same claims.

EPIX has never generated revenues from commercial sales of its product candidates.

EPIX currently has one product for sale in Europe and it cannot guarantee that it will ever have additional marketable product candidates. Vasovist was approved for commercial sale in Europe in October 2005 and is currently being marketed in Europe by EPIX s partner, Schering AG. If Schering AG fails to launch Vasovist in all European countries or fails to achieve significant sales, EPIX s revenues could be materially harmed and EPIX may receive even less royalty income than it currently expects to receive. EPIX expects to receive a typical pharmaceutical royalty based on the sale of Vasovist by Schering AG in Europe. Even if Schering AG continues its launch of Vasovist and it is able to successfully market and sell Vasovist throughout Europe, EPIX does not expect any significant royalties for 2006 sales.

EPIX has never generated positive cash flow, and if EPIX fails to generate revenue, it will have a material adverse effect on its business.

To date, EPIX has received revenues from payments made under licensing, royalty arrangements and product development and marketing agreements with strategic collaborators. In particular, EPIX s revenue for the three months ended March 31, 2006 was $1.7 million and consisted of $1.1 million of product development revenue from Schering AG, $458,000 of royalty revenue related to the Bracco and Schering AG agreements, and $162,000 of license fee revenue related to the Schering AG, Tyco/ Mallinckrodt strategic collaborations and Bracco agreements. In addition to these sources of revenue, EPIX has financed its operations to date through public stock and debt offerings, private sales of equity securities and equipment lease financings.

Although EPIX believes that it is currently in compliance with the terms of its collaboration and licensing agreements, the revenues derived from them are subject to fluctuation in timing and amount. EPIX may not receive anticipated revenue under its existing collaboration or licensing agreements, these agreements may be subject to disputes and, additionally, these agreements may be terminated upon certain circumstances. Therefore, to achieve profitable and sustainable operations, EPIX, alone or with others, must successfully develop, obtain regulatory approval for, introduce, market and sell products. EPIX may

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not receive revenue from the sale of any of its product candidates for the next several years because it, and its partners, may not:

successfully complete EPIX s product development efforts;

obtain required regulatory approvals in a timely manner, if at all;

manufacture EPIX s product candidates at an acceptable cost and with acceptable quality; or

successfully market any approved products.

As a result, EPIX may never generate revenues from sales of its product candidates and its failure to generate positive cash flow could cause its business to fail.

EPIX anticipates future losses and may never become profitable.

EPIX s future financial results are uncertain. EPIX has experienced significant losses since it commenced operations in 1992. EPIX s accumulated net losses as of March 31, 2006 were approximately $184.2 million. These losses have primarily resulted from expenses associated with EPIX s research and development activities, including pre-clinical studies and clinical trials, and general and administrative expenses. EPIX anticipates that its research and development expenses will remain significant in the future and it expects to incur losses over at least the next several years as it continues its research and development efforts, pre-clinical testing and clinical trials and as it implements manufacturing, marketing and sales programs. In particular, EPIX may be required to conduct additional clinical trials in order to achieve FDA approval of Vasovist, which trials would be expensive and which could contribute to EPIX continuing to incur losses. As a result, EPIX cannot predict when it will become profitable, if at all, and if it does, it may not remain profitable for any substantial period of time. EPIX s expenses after the merger may increase significantly as a result of the addition of Predix s research and development and commercialization efforts. In addition, Predix s independent accountants raised substantial doubts about Predix s ability to continue as a going concern and EPIX will assume approximately $9.5 million in debt in connection with its acquisition of Predix. Therefore, the merger may also result in losses to be sustained over a longer period of time than EPIX would experience on its own without the acquisition of Predix and require EPIX to raise additional funds sooner than if it did not acquire Predix. If EPIX fails to achieve profitability within the timeframe expected by investors or if the acquisition of Predix and its research and development programs negatively impacts EPIX s results of operations, the market price of its common stock may decline and consequently its business may not be sustainable.

If the market does not accept EPIX s technology and product candidates, EPIX may not generate sufficient revenues to achieve or maintain profitability.

The commercial success of Vasovist and EPIX s other product candidates, even if approved for marketing by the FDA and corresponding foreign agencies, depends on their acceptance by the medical community and third-party payors as clinically useful, cost-effective and safe. While contrast agents are currently used in an estimated 25% to 35% of all MRI exams, there are no MRI agents approved by the FDA for vascular imaging. Furthermore, clinical use of magnetic resonance angiography has been limited and use of magnetic resonance angiography for some vascular disease imaging has occurred mainly in research and academic centers. Market acceptance, and thus sales of EPIX s products, will depend on several factors, including:

safety;

cost-effectiveness relative to alternative vascular imaging methods;

availability of third-party reimbursement;

ease of administration;

clinical efficacy; and

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availability of competitive products.

Market acceptance will also depend on EPIX s ability and that of its strategic partners to educate the medical community and third-party payors about the benefits of diagnostic imaging with Vasovist-enhanced magnetic resonance angiography compared to imaging with other technologies. Vasovist represents a new approach to imaging the non-coronary vascular system, and market acceptance both of magnetic resonance angiography as an appropriate imaging technique for the non-coronary vascular system, and of Vasovist, is critical to EPIX s success. If Vasovist or any of EPIX s other product candidates, when and if commercialized, do not achieve market acceptance, EPIX may not generate sufficient revenues to achieve or maintain profitability.

EPIX may need to raise additional funds necessary to fund its operations, and if EPIX does not do so, it may not be able to implement its business plan.

Since inception, EPIX has funded its operations primarily through its public offerings of common stock, private sales of equity securities, debt financing, equipment lease financings, product development revenue, and royalty and license payments from its strategic partners. Although EPIX believes that it has adequate funding for the foreseeable future, it may need to raise substantial additional funds for research, development and other expenses through equity or debt financings, strategic alliances or otherwise. EPIX s future liquidity and capital requirements will depend upon numerous factors, including the following:

the progress and scope of clinical trials;

the timing and costs of filing future regulatory submissions;

the timing and costs required to receive both U.S. and foreign governmental approvals;

the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;

the extent to which EPIX s product candidates gain market acceptance;

the timing and costs of product introductions;

the extent of EPIX s ongoing and any new research and development programs;

the costs of training physicians to become proficient with the use of EPIX s product candidates; and

the costs of developing marketing and distribution capabilities.

Based on EPIX s current plans, expense rates, targeted timelines and its view regarding acceptance of Vasovist in the marketplace, EPIX estimates that cash, cash equivalents and marketable securities on hand as of March 31, 2006 will be sufficient to fund its operations for at least the next several years. However, EPIX premises this expectation on its current operating plan, which may change as a result of many factors, including the acquisition of Predix. Taking into consideration the acquisition of Predix and incorporating its research and development programs into the operations of EPIX, EPIX estimates that cash, cash equivalents and marketable securities on hand as of July 13, 2006, together with expected revenue from the sale of Vasovist and reimbursement of clinical trial costs by Schering AG, and the cash, cash equivalents and marketable securities acquired from Predix, will fund the combined company s operations into 2008. If, however, EPIX considers other opportunities, changes its planned activities or is required to pay all or a substantial portion of the milestone payment in cash under the merger agreement, it may require additional funding before currently expected. In this regard, Predix is engaged in discussions with third parties regarding prospective collaborations for its drug candidates. If these discussions were to result in Predix entering into a definitive agreement for such a collaboration that triggered the milestone payment before EPIX issues a significant number of new shares of its capital stock or before the consummation of the merger, EPIX may be required to pay all or a substantial portion of the milestone payment in cash.

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EPIX s competitors may have greater financial resources, superior products or product candidates, manufacturing capabilities and/or marketing expertise, and EPIX may not be able to compete with them successfully.

The healthcare industry is characterized by extensive research efforts and rapid technological change and there are several companies that are working to develop products similar to EPIX s product candidates. However, there are a number of general use MRI agents approved for marketing in the United States. and in certain foreign markets that, if used or developed for magnetic resonance angiography, are likely to compete with Vasovist. Such products include Magnevist and Gadovist by Schering AG, Dotarem by Guerbet, S.A., Omniscan by GE Healthcare, ProHance and MultiHance by Bracco and OptiMARK by Tyco/ Mallinckrodt. EPIX is aware of five agents under clinical development that have been or are being evaluated for use in magnetic resonance angiography: Schering AG s Gadomer and SHU555C, Guerbet s Vistarem, Bracco s B-22956/1, Ferropharm s Code VSOP-C184, and Advanced Magnetics Ferumoxytol. EPIX cannot assure you that its competitors will not succeed in the future in developing products that are more effective than any that EPIX is developing. EPIX believes that its ability to compete in developing MRI contrast agents depends on a number of factors, including the success and timeliness with which it completes FDA trials, the breadth of applications, if any, for which its product candidates receive approval, and the effectiveness, cost, safety and ease of use of its product candidates in comparison to the products of its competitors. Public information on the status of clinical development and performance characteristics for these agents is limited. However, many of these competitors have substantially greater capital and other resources than EPIX does and may represent significant competition for EPIX. These companies may succeed in developing technologies and products that are more effective or less costly than any of those that EPIX may develop. In addition, these companies may be more successful than EPIX is in developing, manufacturing and marketing their products.

Moreover, there are several well-established medical imaging methods that currently compete and will continue to compete with MRI, including digital subtraction angiography, which is an improved form of X-ray angiography, computed tomography angiography, nuclear medicine and ultrasound, and there are companies that are actively developing the capabilities of these competing methods to enhance their effectiveness in vascular system imaging.

EPIX cannot guarantee that it will be able to compete successfully in the future, or that developments by others will not render Vasovist or its future product candidates obsolete or non-competitive, or that its collaborators or customers will not choose to use competing technologies or products. Any inability to compete successfully on EPIX s part will have a materially adverse impact on its operating results.

Product liability claims could increase EPIX s costs and adversely affect its results of operations.

The clinical testing of EPIX s products and the manufacturing and marketing of any approved products may expose EPIX to product liability claims and it may experience material product liability losses in the future. EPIX currently has limited product liability insurance for the use of its approved products and product candidates in clinical research, which is capped at $10.0 million, but its coverage may not continue to be available on terms acceptable to it or adequate for liabilities EPIX actually incur. EPIX does not have product liability insurance coverage for the commercial sale of its product candidates, but intends to obtain such coverage when and if EPIX commercializes its product candidates. However, EPIX may not be able to obtain adequate additional product liability insurance coverage on acceptable terms, if at all. A successful claim brought against EPIX in excess of available insurance coverage, or any claim or product recall that results in significant adverse publicity against EPIX, may have a material adverse effect on EPIX s business and results of operations.

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EPIX significantly increased its leverage as a result of the sale of 3.0% Convertible Senior Notes due 2024.

In connection with the sale of 3.0% Convertible Senior Notes due 2024, EPIX has incurred indebtedness of $100 million. In addition, holders of EPIX s 3% Convertible Senior Notes due 2024 may require EPIX to repurchase these notes at par, plus accrued and unpaid interest, on June 15, 2011, 2014 and 2019. The amount of EPIX s indebtedness could, among other things:

make it difficult for EPIX to make payments on the notes;

make it difficult for EPIX to obtain financing for working capital, acquisitions or other purposes on favorable terms, if at all;

make EPIX more vulnerable to industry downturns and competitive pressures; and

limit EPIX s flexibility in planning for, or reacting to changes in, its business.

EPIX s ability to meet its debt service obligations will depend upon its future performance, which will be subject to regulatory approvals and sales of its products, as well as other financial and business factors affecting its operations, many of which are beyond EPIX s control.

Certain anti-takeover clauses in EPIX s charter and by-laws and in Delaware law may make an acquisition of EPIX more difficult.

EPIX s restated certificate of incorporation authorizes the EPIX board of directors to issue, without stockholder approval, up to 1,000,000 shares of preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of EPIX s common stock. The issuance of preferred stock or of rights to purchase preferred stock could be used to discourage an unsolicited acquisition proposal. In addition, the possible issuance of preferred stock could discourage a proxy contest, make more difficult the acquisition of a substantial block of EPIX s common stock or limit the price that investors might be willing to pay for shares of EPIX s common stock. The restated certificate of incorporation provides for staggered terms for the members of the EPIX board of directors. A staggered EPIX board of directors and certain provisions of EPIX s by-laws and of the state of Delaware law applicable to EPIX could delay or make more difficult a merger, tender offer or proxy contest involving EPIX. EPIX is subject to Section 203 of the General Corporation Law of the State of Delaware, which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation s outstanding voting stock for a period of three years from the date the stockholder becomes an interested stockholder. These provisions may have the effect of delaying or preventing a change in control of EPIX without action by the stockholders and, therefore, could adversely affect the price of EPIX s stock.

Risks Relating to the Business of Predix and the Combined Company

Business Risks

If Predix does not obtain required regulatory approval of its drug candidates, Predix will be unable to market and sell Predix s drug candidates.

PRX-00023, PRX-03140, PRX-08066 and PRX-07034 and any other drug candidates Predix may discover or acquire and seek to commercialize are subject to extensive regulation by the FDA and similar regulatory agencies in other countries relating to development, clinical trials, manufacturing and commercialization. In the United States and in many foreign jurisdictions, rigorous pre-clinical testing and clinical trials and an extensive regulatory review process must be successfully completed before a new drug can be sold. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. The time required to obtain approval by the FDA is unpredictable but typically exceeds five years following the commencement of clinical trials, depending upon many factors, including the complexity of the drug candidate. Predix initiated clinical trials for PRX-00023, PRX-03140 and PRX-08066 in February 2004, December 2004 and May 2005, respectively, and thus far, these drug

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candidates have been studied in only a small number of patients. In addition, a Phase I clinical trial for PRX-07034 recently commenced on June 2, 2006. Early-stage clinical trials in small numbers of patients are often not predictive of results in later-stage clinical trials with a larger and more diverse patient population. Even drug candidates with favorable results in late-stage pivotal clinical trials may fail to get approved for commercialization for many reasons, including:

Predix s failure to demonstrate to the satisfaction of the FDA or comparable foreign regulatory authorities that a drug candidate is safe and effective for a particular indication;

Predix s inability to demonstrate that a drug candidate s benefits outweigh its risks;

Predix s inability to demonstrate that the drug candidate presents a significant advantage over existing therapies;

the FDA s or comparable foreign regulatory authorities disagreement with the manner in which Predix and Predix s collaborators interpret the data from pre-clinical studies or clinical trials;

the FDA s or comparable foreign regulatory authorities failure to approve Predix s manufacturing processes or facilities or the processes or facilities of Predix s collaborators; or

a change in the approval policies or regulations of the FDA or comparable foreign regulatory authorities.

It is possible that none of Predix s drug candidates or any other drug candidates Predix may seek to develop in the future will ever obtain the appropriate regulatory approvals necessary for Predix to begin selling them.

Predix s clinical trials may not yield results that will enable Predix to obtain regulatory approval for Predix s drug candidates.

Predix will only receive regulatory approval to commercialize a drug candidate if Predix can demonstrate to the satisfaction of the FDA or the applicable foreign regulatory agency, in well-designed and conducted clinical trials, that the drug candidate is safe and effective and otherwise meets the appropriate standards required for approval for a particular indication. Clinical trials are lengthy, complex and extremely expensive processes with uncertain results. Predix has limited experience in conducting and managing the clinical trials necessary to obtain regulatory approvals, including filing and prosecuting the applications necessary to gain approval by the FDA. To date, Predix has not completed a Phase III clinical trial or submitted an NDA to the FDA for any of its drug candidates. This limited experience may result in longer regulatory processes in connection with Predix s efforts to obtain approval of its product candidates. In connection with the clinical trials for PRX-00023, PRX-03140 and PRX-08066 as well as the recently commenced Phase I clinical trial for PRX-07034 and any other drug candidate Predix may seek to develop in the future, Predix faces risks including that:

the drug candidate may not prove to be safe and efficacious;

the dosage form of the drug candidate may not deliver reproducible amounts of drug to patients;

patients may die or suffer other adverse effects for reasons that may or may not be related to the drug candidate being tested;

the results of later-stage clinical trials may not confirm the positive results of earlier trials;

the results may not meet the level of statistical significance required by the FDA or other regulatory agencies for approval; and

the FDA or other regulatory agencies may require additional or expanded trials.

Of the large number of drugs in development, only a small percentage result in the submission of an NDA to the FDA and even fewer are approved for commercialization. If Predix fails to demonstrate the safety and efficacy of Predix s drug candidates, Predix will not be able to obtain the required regulatory

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approvals to commercialize these drug candidates. Furthermore, even if Predix does receive regulatory approval to market a commercial product, any such approval may be subject to limitations on the indicated uses for which Predix or a collaborator may market the product.

If Predix does not obtain additional financing, its ability to implement its business plan will be significantly harmed.

Predix has incurred substantial losses to date and Predix expects to incur substantial losses for the foreseeable future. Predix has no current sources of material ongoing revenue. As of March 31, 2006, Predix had an accumulated deficit of approximately $129.8 million. As a result, Predix s independent accountant has indicated that it has substantial doubts that Predix can continue as a going concern. To address this matter, Predix entered into a bridge financing agreement with certain of its shareholders, in which Predix issued notes totaling approximately $9.5 million. This bridge financing will increase the combined company s outstanding debt obligations following the merger. In the event that the merger is not consummated, Predix will be required to raise additional capital in 2006 through the sale of debt or equity securities or through research and development collaborations to fund its operations for the next 12 months. There can be no assurance that any such financing will be available, or that Predix will be able to enter such collaborations, on favorable terms, if at all. Predix s independent accountant s going concern opinion may negatively affect Predix s ability to raise additional funds. If Predix fails to raise sufficient capital, Predix will not be able to implement its business plan and may need to cease its operations.

Predix has never had commercially available products and, because all of Predix s drug candidates are in early stages of development, there is a high risk of failure, and Predix may never succeed in developing marketable products or generating product revenue.

Predix has never had any drug candidates receive regulatory approval for commercial sale. Predix s most advanced drug candidate, PRX-00023, completed a Phase IIa clinical trial in July 2005, and Predix is expecting to complete the first of at least two pivotal Phase III clinical trials for generalized anxiety disorder for this drug candidate in the second half of 2006. Predix has three other clinical-stage drug candidates: PRX-03140 for the treatment of Alzheimer s disease that is expected to enter Phase II clinical trials in the second half of 2006; PRX-08066 for the treatment of two types of pulmonary hypertension, which are pulmonary hypertension associated with chronic obstructive pulmonary disease that is expected to enter Phase II clinical trials in the second half of 2006, and pulmonary arterial hypertension; and PRX-07034 for the treatment of obesity and cognitive impairment, that commenced Phase I clinical testing on June 2, 2006. In addition, PRX-08066 has never been tested in patients with pulmonary arterial hypertension or pulmonary hypertension associated with chronic obstructive pulmonary disease and PRX-07034 has never been tested in patients with obesity and cognitive impairment. Predix does not expect to have any commercial products on the market for at least the next several years, if at all. Predix is exploring human diseases at the cellular level and attempting to develop drug candidates that regulate cellular processes. Trial and error is inherent in drug discovery and development, and Predix may fail at numerous stages along the way. Success in pre-clinical studies of a drug candidate may not be predictive of similar results in humans during clinical trials, and successful results from early clinical trials of a drug candidate may not be replicated in later clinical trials. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials even after achieving promising results in early-stage development. For example, Sanofi-Aventis recently discontinued the development of its product candidate for the treatment of Alzheimer s disease designed to target the 5-HT4 protein receptor due to lack of efficacy. This compound is believed to have the same mechanism of action as PRX-03140, was more advanced in the clinic and was more potent in *in vitro* assays. Accordingly, the results from the completed and ongoing studies and trials for PRX-00023, PRX-03140, PRX-08066 and PRX-07034 may not be predictive of the results Predix may obtain in later-stage trials.

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If clinical trials for Predix s drug candidates are prolonged or delayed, Predix may be unable to commercialize Predix s drug candidates on a timely basis, which would require Predix to incur additional costs and delay Predix s receipt of any revenue from potential product sales.

Predix may encounter problems with Predix s completed, ongoing or planned clinical trials that will cause Predix or any regulatory authority to delay or suspend those clinical trials or delay the analysis of data derived from them. A number of events, including any of the following, could delay the completion of Predix s ongoing and planned clinical trials and negatively impact Predix s ability to obtain regulatory approval for, and to enter into collaborations, market and/or sell, a particular drug candidate, including Predix s clinical-stage drug candidates PRX-00023, PRX-03140, PRX-08066 and PRX-07034:

- conditions imposed on Predix by the FDA or any foreign regulatory authority regarding the scope or design of Predix s clinical trials;
- delays in obtaining, or Predix s inability to obtain, required approvals from institutional review boards or other reviewing entities at clinical sites selected for participation in Predix s clinical trials;
- delay in developing a clinical dosage form, insufficient supply or deficient quality of Predix s drug candidates or other materials necessary to conduct Predix s clinical trials;
- negative or inconclusive results from clinical trials, or results that are inconsistent with earlier results, that necessitate additional clinical study;
- negative or inconclusive results from clinical trials, or results that are inconsistent with earlier results, that necessitate additional clinical study;
- serious and/or unexpected drug-related side effects experienced by subjects in clinical trials; or
- failure of Predix s third-party contractors or Predix s investigators to comply with regulatory requirements or otherwise meet their contractual obligations to Predix in a timely manner.

In addition, the number and complexity of clinical trials needed to achieve regulatory approval for Predix s lead drug candidates, PRX-00023 for the treatment of generalized anxiety disorder and depression and PRX-03140 for the treatment of Alzheimer s disease, could be significant. Achieving primary efficacy endpoints in these trials is difficult due to the significant placebo effect in these patient populations. In addition, the clinical path of PRX-00023 may be delayed because Predix has less clinical data and clinical experience with PRX-00023 than it would have had it followed the more common practice of conducting more than one Phase II clinical trial for PRX-00023. Instead, after meeting with the FDA regarding the design, endpoints and statistical plan of its Phase III clinical trial, Predix elected to progress PRX-00023 directly into Phase III development. In addition, Predix must also submit the results of a two-year carcinogenicity study of PRX-00023 prior to its approval. Predix has not yet initiated this study and intends to conduct this study prior to submitting an NDA to the FDA. If the clinical development of PRX-00023 is delayed as a result of these matters, additional requirements set forth by the FDA, including requirements related to confirming the correct dose for PRX-00023, or otherwise, the time and cost of the development of PRX-00023 could increase significantly.

Predix s clinical trials may not begin as planned, may need to be restructured, and may not be completed on schedule, if at all. Delays in Predix s clinical trials may result in increased development costs for Predix s drug candidates. In addition, if Predix s clinical trials are delayed, Predix s competitors may be able to bring product candidates to market before Predix does and the commercial viability of Predix s drug candidates, including PRX-00023, PRX-03140, PRX-08066 and PRX-07034, could be significantly reduced.

If Predix encounters difficulties enrolling subjects in Predix s clinical trials, or subjects drop out of trials in progress, Predix s trials could be delayed or otherwise adversely affected.

Clinical trials for Predix s drug candidates require sufficient patient enrollment. Predix may not be able to enroll a sufficient number of qualified patients in a timely or cost-effective manner. For example,

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Predix experienced difficulty in enrolling healthy elderly volunteers in Predix s Phase I clinical trial for PRX-03140. Any future delays in patient enrollment could result in increased costs and longer development times. Enrollment of patients is affected by many factors, including:

- the limited size of the patient population and the availability of commercial products for certain target indications, including pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease;
- the nature and design of the trial protocol;
- the proximity of patients to clinical sites;
- the availability of other effective treatments for the relevant disease (whether approved or experimental);
- the eligibility criteria for enrollment in Predix s clinical trials;
- perceived risks and benefits of the drug candidate under study; and
- competing studies or trials.

Predix s failure to enroll patients in Predix s clinical trials could delay the completion of these clinical trials. Furthermore, enrolled patients may drop out of Predix s clinical trials, which could impair the validity or statistical significance of the clinical trials. In addition, the FDA could require Predix to conduct clinical trials with a larger number of subjects than Predix has projected for any of Predix s drug candidates. If Predix has difficulty enrolling or retaining a sufficient number of patients to participate and complete Predix s clinical trials as planned, Predix may need to delay or terminate ongoing or planned clinical trials. Delays in enrolling patients in Predix s clinical trials or the withdrawal of subjects enrolled in Predix s clinical trials would adversely affect Predix s ability to develop and seek approval for Predix s drug candidates, could delay or eliminate Predix s ability to generate drug candidates and revenue and could impose significant additional costs on Predix.

Predix s drug candidates are currently unformulated.

All of Predix s drug candidates, including its lead product candidate, PRX-00023, are currently unformulated. The lack of an optimized and commercially-viable formulation during clinical trials may have a significant impact in the overall development and commercialization of these drug candidates, including:

- the current dosage may not provide reproducible amounts of drug;
- the pharmaceutical development of a commercially viable formulation may add significant cost and time to Predix s clinical development programs;
- additional trials may be required if the new formulation is not bioequivalent to formulations already used in clinical trials;
- future clinical trials may be delayed in order to identify, develop, optimize, manufacture and certify a commercially viable formulation; and
- regulatory filings, and/or commercial launch may be delayed due to the lack of a commercial process for cGMP manufacturing of the new formulation.

The occurrence of any of the foregoing could materially harm Predix s business.

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If Predix fails to obtain the additional capital necessary to fund Predix s operations, Predix will be unable to successfully develop and commercialize Predix s drug candidates.

Predix will require substantial future capital to continue to complete clinical development and commercialize Predix s clinical-stage drug candidates, PRX-00023, PRX-03140, PRX-08066 and PRX- 07034, and to conduct the research and development and clinical and regulatory activities necessary to bring other drug candidates to market. Predix s future capital requirements will depend on many factors that are currently unknown to us, including:

- the progress and results of Predix s first Phase III clinical trial for PRX-00023 and any other trials Predix may initiate based on the results of this trial;
- Predix s ability to enter into a strategic collaboration, licensing or other arrangement, particularly with respect to PRX-00023, on terms favorable to Predix;
- the progress and results of any future clinical trials Predix may initiate with PRX-03140 and PRX-08066 based on the Phase I results obtained to date;
- the results of Predix s pre-clinical studies and testing for Predix s pre-clinical programs, and any decisions to initiate clinical trials if supported by the pre-clinical results;
- the costs, timing and outcome of regulatory review of PRX-00023, PRX-03140, PRX-08066 and PRX-07034, and any pre-clinical drug candidates that progress to clinical trials;
- the scope, progress, results and cost of pre-clinical development, manufacturing, pharmaceutical development, clinical trials and regulatory review of any new drug candidates Predix may discover or acquire;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing Predix s issued patents, and defending intellectual property-related claims;
- the costs of establishing sales and marketing functions and of establishing commercial manufacturing arrangements if any of Predix s drug candidates is approved;
- the costs to satisfy Predix s obligations under potential future collaborations; and
- the timing, receipt and amount of sales or royalties, if any, from PRX-00023, PRX-03140, PRX-08066 and PRX-07034, and any other drug candidates.

Predix cannot assure you that additional funds will be available when Predix needs them on terms that are acceptable to Predix, or at all. Companies at Predix s stage of development have recently encountered difficulties raising money under current conditions in the capital markets. For example, Predix commenced, but did not successfully complete, an initial public offering of its common stock in 2005. If adequate funds are not available on a timely basis, Predix may be required to:

- terminate or delay pre-clinical studies, manufacturing, pharmaceutical development, clinical trials or other development for one or more of Predix s drug candidates, including the initiation of clinical development of PRX-00023 for a depression indication;
- delay Predix s establishment of sales and marketing capabilities or other activities that may be necessary to commercialize any of Predix s drug candidates; or
- curtail significant drug discovery programs that are designed to identify new drug candidates.

Based on Predix s current plans, expense rates, targeted timelines and its view regarding the progression of its product candidates through clinical trials, Predix estimates that cash, cash equivalents and marketable securities on

hand as of July 13, 2006 will be sufficient to fund its operations through the anticipated closing of the merger. As a result, there exists substantial doubt about Predix s ability to continue as a going concern through December 31, 2006 without additional funding or the successful completion of the merger. However, Predix premises this expectation on its current operating plan, which may change as a result of many factors including its acquisition by EPIX and the access to EPIX s cash,

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cash equivalents and marketable securities if the merger is completed. However, Predix may need additional funds sooner than planned. In addition, Predix may seek additional capital if market conditions permit or for strategic considerations even if Predix believes Predix has sufficient funds for Predix s current or future operating plans.

Failure to comply with foreign regulatory requirements governing human clinical trials and marketing approval for drugs could prevent Predix from selling Predix s drug candidates in foreign markets, which may adversely affect Predix s operating results and financial condition.

The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement for marketing Predix s drug candidates outside the United States vary greatly from country to country and may require additional testing. Predix has no experience in obtaining foreign regulatory approvals. The time required to obtain approvals outside the United States may differ from that required to obtain FDA approval. Predix may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other countries or by the FDA. Failure to comply with these regulatory requirements or obtain required approvals could impair Predix s ability to develop foreign markets for Predix s drug candidates.

Predix s drug candidates will remain subject to ongoing regulatory requirements even if they receive marketing approval, and if Predix fails to comply with requirements, Predix could lose these approvals and the sale of any approved commercial products could be temporarily or permanently suspended.

Even if Predix receives regulatory approval to market a particular drug candidate, the product will remain subject to extensive regulatory requirements, including requirements relating to manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record keeping. In addition, as clinical experience with a drug expands after approval because it is typically used by a greater number of patients after approval than during clinical trials, side effects and other problems may be observed after approval that were not seen or anticipated during pre-approval clinical trials. If Predix fails to comply with the regulatory requirements of the FDA and other applicable U.S. and foreign regulatory authorities or previously unknown problems with any approved commercial products, manufacturers or manufacturing processes are discovered, Predix could be subject to administrative or judicially imposed sanctions or other setbacks, including:

- restrictions on the products, manufacturers or manufacturing processes;
- civil or criminal penalties;
- fines;
- injunctions;
- product seizures or detentions;
- import bans;
- product recalls and related publicity requirements;
- total or partial suspension of production; and
- refusal to approve pending applications for marketing approval of new products or supplements to approved applications.

The imposition on Predix of any of the foregoing could materially harm Predix s business.

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Predix deals with hazardous materials and must comply with environmental laws and regulations, which can be expensive and restrict how Predix does business.

Predix s activities may involve the controlled storage, use and disposal of a small amount of hazardous materials, including infectious agents, corrosive, explosive and flammable chemicals and various radioactive compounds. Predix is subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. Although Predix is not currently, nor has it been, the subject of any investigations by a regulatory authority, it cannot assure you that it will not become the subject of any such investigation. Although Predix believes that Predix s safety procedures for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, Predix cannot eliminate the risk of accidental contamination or injury from these materials.

In the event of an accident, state or federal authorities may curtail Predix s use of these materials and interrupt Predix s business operations. In addition, Predix could be liable for any civil damages that result, which may exceed Predix s financial resources and may seriously harm Predix s business. Due to the small amount of hazardous materials that Predix generates, Predix has determined that the cost to secure insurance coverage for environmental liability and toxic tort claims far exceeds the benefits. Accordingly, Predix does not maintain any insurance to cover pollution conditions or other extraordinary or unanticipated events relating to Predix s use and disposal of hazardous materials. Additionally, an accident could damage, or force Predix to shut down, Predix s operations. In addition, if Predix develops a manufacturing capacity, Predix may incur substantial costs to comply with environmental regulations and would be subject to the risk of accidental contamination or injury from the use of hazardous materials in Predix s manufacturing process.

Predix is focusing Predix s drug discovery and development efforts on G-Protein Coupled Receptor and ion channel-targeted drug candidates, which have historically had a high incidence of adverse side effects.

Despite commercial success, many G-Protein Coupled Receptor, or GPCR, and ion channel-targeted drugs have been associated with a high incidence of adverse side effects due in part to poor selectivity in binding to their target protein, resulting in also binding to other off-target proteins. Predix believes it is designing its drug candidates to be more selective and to have a more favorable side-effect profile. However, all of Predix s drug candidates are in early stages of development, and although Predix s clinical drug candidates have to date exhibited acceptable side-effect profiles in clinical trials in a limited number of subjects, Predix cannot assure you that these results will be repeated in larger-scale trials. If serious side effects occur in later-stage clinical trials of Predix s drug candidates, Predix may not receive regulatory approval to commercialize them. Even if any of Predix s drug candidates receive regulatory approval, if they do not exhibit a more favorable side-effect profile than existing therapies, Predix s competitive position could be substantially diminished.

The application of Predix s in silico drug discovery technology and approach may be limited to a subset of therapeutically useful and ion channel proteins, which may reduce the opportunities to develop and commercialize drug candidates against other important therapeutic targets.

To date, Predix s technology and approach has generated clinical drug candidates, including PRX-00023, PRX-03140, PRX-08066 and PRX-07034, which mimic the activity of a small molecule, serotonin, within a class of G-Protein Coupled Receptors, or GPCRs, known as serotonergic receptors. The activity is achieved through binding of the ligand, serotonin, to a lipophilic region of the transmembrane spanning domain. These GPCRs and mechanisms of interaction represent a small subset of all known therapeutically-relevant GPCRs. The application of Predix s *in silico* technology to other known therapeutically-relevant GPCR targets based on large molecule ligands, hydrophilic interactions or surface interactions is unknown. Ion channels can consist of multiple protein subunits that have complex and subtle mechanisms of activation and inactivation. Therefore, it may be difficult to apply Predix s proprietary drug discovery technology to small-molecule ion channel programs. Although Predix believes that the *in silico* technology platform can be utilized and developed to discover such small molecules,

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Predix cannot ensure that its *in silico* technology and approach will generate clinical candidates for all GPCRs and ion channels that are important targets for therapeutic intervention.

Predix may not be able to keep up with the rapid technological change in the biotechnology and pharmaceutical industries, which could make any of Predix s future approved products obsolete and reduce Predix s revenue.

Biotechnology and related pharmaceutical technologies have undergone and continue to be subject to rapid and significant change. Predix s future will depend in large part on Predix s ability to maintain a competitive position with respect to these technologies. Predix believes that its proprietary drug discovery technology and approach enables structure-based discovery and optimization of certain G-Protein Coupled Receptor and ion channel-targeted drug candidates. However, Predix s competitors may render Predix s technologies obsolete by advances in existing GPCR and ion channel-targeted drug discovery approaches or the development of new or different approaches. In addition, any future products that Predix develops, including Predix s clinical-stage drug candidates, PRX-00023, PRX-03140, PRX-08066 and PRX-07034 may become obsolete before Predix recovers expenses incurred in developing those products, which may require that Predix raise additional funds to continue Predix s operations.

Predix s competitors may develop products that are less expensive, safer or more effective, which may diminish or eliminate the commercial success of any future products that Predix may commercialize.

Competition in the pharmaceutical and biotechnology industries is intense and expected to increase. Predix faces competition from pharmaceutical and biotechnology companies, as well as numerous academic and research institutions and governmental agencies engaged in drug discovery activities or funding, both in the United States and abroad. Some of these competitors have products or are pursuing the development of drug candidates that target the same diseases and conditions that are the focus of Predix s three most advanced clinical-stage product candidates, including the following:

PRX-00023. If approved, PRX-00023, the drug candidate Predix is developing for the treatment of anxiety and depression, will compete with approved products from such pharmaceutical companies as Forest Laboratories, GlaxoSmithKline, Pfizer and Wyeth, and may compete with several drug candidates in clinical development from other companies, including Eli Lilly and MediciNova. Predix believes that there are over 35 drug candidates in clinical trials or that have been submitted for approval for the treatment of anxiety and over 45 drug candidates in clinical trials or that have been submitted for approval for the treatment of depression.

PRX-03140. If approved, PRX-03140, the drug candidate Predix is developing for the treatment of Alzheimer s disease, will compete with approved products from such pharmaceutical companies as Forest Laboratories, Johnson & Johnson, Novartis and Pfizer, and may compete with several drug candidates in clinical development from other companies, including Myriad Genetics and Neurochem. Predix believes that there are over 60 drug candidates in clinical trials for the treatment of Alzheimer s disease.

PRX-08066. If approved, PRX-08066, the drug candidate Predix is developing for the treatment of pulmonary hypertension, will compete with approved products from such pharmaceutical companies as Actelion, CoTherix, GlaxoSmithKline, Pfizer and United Therapeutics, and may compete with several drug candidates in clinical development by other companies such as Encysive Pharmaceuticals and Myogen. Predix believes that there are approximately ten drug candidates in clinical trials or that have been submitted for approval for the treatment of pulmonary arterial hypertension and/or pulmonary hypertension associated with chronic obstructive pulmonary disease.

Many patents covering commercial products for these indications will expire within the next four to nine years, which will result in greater competition in these indications resulting from companies producing generic versions of the commercial drugs. In addition, many of Predix s competitors and their collaborators have substantially greater capital, research and development resources, manufacturing, sales and marketing experience and capabilities. Smaller companies also may prove to be significant competitors, particularly

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through proprietary research discoveries and collaboration arrangements with large pharmaceutical and established biotechnology companies. Many of Predix s competitors have products that have been approved or are in advanced development and may develop superior technologies or methods to identify and validate drug targets and to discover novel small-molecule drugs. Predix s competitors, either alone or with their collaborators, may succeed in developing drugs that are more effective, safer, more affordable or more easily administered than Predix s and may achieve patent protection or commercialize drugs sooner than Predix. Predix s competitors may also develop alternative therapies that could further limit the market for any drugs that Predix may develop.

If a successful product liability claim or series of claims is brought against Predix for uninsured liabilities or in excess of insured liabilities, Predix could be forced to pay substantial damage awards.

The use of any of Predix s drug candidates in clinical trials, and the sale of any approved products, might expose Predix to substantial product liability claims. Predix currently maintains product liability insurance coverage in the amount of $10 million to cover Predix against such claims. However, such insurance coverage might not protect Predix against all of the claims to which Predix might become subject. Predix might not be able to maintain adequate insurance coverage at a reasonable cost or in sufficient amounts or scope to protect Predix against potential losses. If a claim is brought against Predix, Predix might be required to pay legal and other expenses to defend the claim, as well as uncovered damages awards resulting from a claim brought successfully against Predix. Furthermore, whether or not Predix is ultimately successful in defending any such claims, Predix might be required to direct significant financial and managerial resources to such defense and adverse publicity is likely to result.

Risks Relating to Predix s Dependence on Third Parties

Predix relies on third parties to conduct Predix s clinical trials, and those third-parties may not perform satisfactorily, including failing to meet established deadlines for the completion of such trials.

Predix does not have the ability to independently conduct clinical trials for Predix s drug candidates, and Predix relies on third parties such as contract research organizations, medical institutions and clinical investigators to enroll qualified patients and conduct Predix s clinical trials. Predix s reliance on these third parties for clinical development activities reduces Predix s control over these activities. Accordingly, these third-party contractors may not complete activities on schedule, or may not conduct Predix s clinical trials in accordance with regulatory requirements or Predix s trial design. To date, Predix believes Predix s contract research organizations and other similar entities with which Predix is working have performed well. However, if these third parties do not successfully carry out their contractual duties or meet expected deadlines, Predix may be required to replace them. Although Predix believes that there are other third-party contractors Predix could engage to continue these activities, it may result in a delay of the affected trial. Accordingly, Predix s efforts to obtain regulatory approvals for and commercialize Predix s drug candidates may be delayed.

Predix s drug candidates require significant biological testing, pre-clinical testing, manufacturing and pharmaceutical development expertise and investment. Predix relies primarily on external partners to complete these activities.

Predix does not have in-house biological or pre-clinical testing capabilities. Therefore, it relies on third parties to perform *in vitro* potency, *in vivo* functional efficacy, animal toxicology and pharmacokinetics testing prior to advancing its product candidates into clinical trials. Predix also does not have internal expertise to scale up, manufacture or formulate its drug candidates. Predix currently relies solely on Johnson Matthey Pharma Services for its drug substance manufacturing and testing, and solely on Aptuit, Inc. for its drug product manufacturing and testing. Although Predix believes that it could replace these suppliers on commercially reasonable terms, if any of these third parties fail to fulfill their obligations to Predix or do not successfully compete the testing in a timely or acceptable manner, Predix s drug development efforts could be negatively impacted and/or delayed.

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If Predix does not establish a collaboration to further develop and commercialize PRX-00023 or other drug candidates, Predix may have to alter Predix s development plans.

Predix estimates that, from inception through March 31, 2006, its out-of-pocket payments to third parties for pre-clinical study support, clinical supplies and clinical trials associated with Predix s three most advanced clinical-stage drug candidates, PRX-00023, PRX-03140 and PRX-08066, totaled approximately $29 million. Predix s drug development programs and potential commercialization of Predix s drug candidates will require substantial additional cash to fund expenses. Predix s strategy includes collaborating with a leading pharmaceutical or biotechnology company to assist Predix in further developing and potentially commercializing PRX-00023 and its other drug candidates requiring large commercial sales and marketing infrastructures. Predix may also seek to enter into such collaborations for Predix s other drug candidates, especially for target indications in which the potential collaborator has particular therapeutic expertise or that involve a large, primary care market that must be served by large sales and marketing organizations. Predix faces significant competition in seeking appropriate collaborators and these collaborations are complex and time-consuming to negotiate and document. Although Predix has had, and is currently in, discussions with prospective collaborative partners with respect to development programs, Predix does not currently have any agreement or arrangement with respect to any such collaboration. Predix may not be able to enter into any such collaboration on terms that are acceptable to Predix, or at all. If that were to occur, Predix may have to curtail the development of a particular drug candidate, reduce or delay its development program or one or more of Predix s other development programs, delay its potential commercialization, or increase Predix s expenditures and undertake development or commercialization activities at Predix s own expense. If Predix elects to increase Predix s expenditures to fund development or commercialization activities on Predix s own, Predix will need to obtain additional capital, which may not be available to Predix on acceptable terms, or at all. If Predix does not obtain sufficient funds, Predix will not be able to complete clinical development of Predix s drug candidates or bring Predix s drug candidates to market and generate product revenue.

If physicians and patients do not accept Predix s product candidates, Predix may be unable to generate significant revenue, if any.

Even if PRX-00023, PRX-03140, PRX-08066 and PRX-07034, or any other drug candidates Predix may develop or acquire in the future, obtain regulatory approval, they may not gain market acceptance among physicians, healthcare payors, patients and the medical community. Physicians may elect not to recommend these drugs for a variety of reasons including:

timing of market introduction of competitive products;

lower demonstrated clinical safety and efficacy compared to other products;

lack of cost-effectiveness;

lack of availability of reimbursement from managed care plans and other third-party payors;

convenience and ease of administration;

prevalence and severity of adverse side effects;

other potential advantages of alternative treatment methods; and

ineffective marketing and distribution support.

If Predix s approved drugs, if any, fail to achieve market acceptance, Predix would not be able to generate significant revenue.

If the government and third-party payors fail to provide coverage and adequate payment rates for Predix s product candidates, if any, Predix s revenue and prospects for profitability will be harmed.

In both domestic and foreign markets, Predix s sales of any product candidates will depend in part upon the availability of reimbursement from third-party payors. Such third-party payors include

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government health programs such as Medicare, managed care providers, private health insurers and other organizations. These third-party payors are increasingly attempting to contain healthcare costs by demanding price discounts or rebates and limiting both coverage on which drugs they will pay for and the amounts that they will pay for new drugs. As a result, they may not cover or provide adequate payment for Predix s drugs. Predix might need to conduct post-marketing studies in order to demonstrate the cost-effectiveness of any future products to such payors satisfaction. Such studies might require Predix to commit a significant amount of management time and financial and other resources. Predix s future products might not ultimately be considered cost-effective. Adequate third-party reimbursement might not be available to enable Predix to maintain price levels sufficient to realize an appropriate return on investment in product development.

U.S. and foreign governments continue to propose and pass legislation designed to reduce the cost of healthcare. For example, in some foreign markets, the government controls the pricing of prescription pharmaceuticals. In the United States, Predix expects that there will continue to be federal and state proposals to implement similar governmental controls. In addition, recent changes in the Medicare program and increasing emphasis on managed care in the United States will continue to put pressure on pharmaceutical product pricing. Cost control initiatives could decrease the price that Predix would receive for any products in the future, which would limit Predix s revenue and profitability. Accordingly, legislation and regulations affecting the pricing of pharmaceuticals might change before Predix s drug candidates are approved for marketing. Adoption of such legislation could further limit reimbursement for pharmaceuticals.

Risks Relating to Predix s Intellectual Property

If Predix s patent position does not adequately protect Predix s drug candidates or any future products, others could compete against Predix more directly, which would harm Predix s business.

As of June 28, 2006, Predix s patent portfolio included a total of 18 pending patent applications in the United States as well as counterpart applications in certain foreign countries having composition of matter, method of use and process claims related to Predix s programs. PRX-00023 is the subject of one pending patent application filed in 21 jurisdictions since 2004. PRX-03140 is the subject of three pending patent applications filed in six jurisdictions since 2004. PRX-08066 is covered in U.S. Patent 7,030,240. The patent claims cover PRX-08066 and related compounds. This patent expires in 2023. Two pending patent applications are directed to other aspects of Predix s 5-HT2B drug development program, from which PRX-08066 was delivered. PRX-07034 is the subject of two pending patent applications filed in two jurisdictions. Physiome Sciences, Inc., a predecessor of Predix, received U.S. Patent 5,947,899, which covers a computational system and method for modeling the heart. This patent expires in 2016. Predix s commercial success will depend in part on Predix s ability to cause patents to issue on these applications, obtain additional patents and protect Predix s existing patent position as well as Predix s ability to maintain adequate protection of other intellectual property for Predix s technologies, drug candidates and any future products in the United States and other countries. If Predix does not adequately protect Predix s intellectual property, competitors may be able to use Predix s technologies and erode or negate any competitive advantage Predix may have, which could harm Predix s business and ability to achieve profitability. Patents may also issue to third parties which could interfere with Predix s ability to bring one or more of Predix s drug candidates to market. The laws of some foreign countries do not protect Predix s proprietary rights to the same extent as the laws of the United States, and Predix may encounter significant problems in protecting Predix s proprietary rights in these countries.

The patent positions of biotechnology and pharmaceutical companies, including Predix s patent position, involve complex legal and factual questions, and, therefore, any patents issued to Predix may be challenged, deemed unenforceable, invalidated or circumvented. Predix will be able to protect Predix s proprietary rights from unauthorized use by third parties only to the extent that Predix s proprietary technologies, drug candidates, and any future products are covered by valid and enforceable patents or are effectively maintained as trade secrets.

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The degree of future protection for Predix s proprietary rights is uncertain, and Predix cannot ensure that:

Predix or Predix s licensors were the first to make the inventions covered by each of Predix s pending patent applications;

Predix or Predix s licensors were the first to file patent applications for these inventions;

others will not independently develop similar or alternative technologies or duplicate any of Predix s technologies;

any of Predix s or Predix s licensors pending patent applications will result in issued patents;

any of Predix s or Predix s licensors patents will be valid or enforceable;

any patents issued to Predix or Predix s licensors and collaborators will provide a basis for commercially viable products, will provide Predix with any competitive advantages or will not be challenged by third parties;

Predix will develop additional proprietary technologies or drug candidates that are patentable; or

the patents of others will not have an adverse effect on Predix s business.

Predix may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

Predix relies on trade secrets to protect Predix s proprietary technologies, including Predix s G-Protein Coupled Receptor and ion channel structures, especially where Predix does not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Predix relies in part on confidentiality agreements with Predix s employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect Predix s trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy if unauthorized disclosure of confidential information occurs. In addition, others may independently discover Predix s trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of Predix s proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect Predix s competitive business position. Predix relies on trade secrets and confidentiality in particular with respect to Predix s drug discovery technology and any future competitive advantage provided by it. Predix may not enjoy any such competitive advantage if Predix is not able to effectively maintain and enforce any trade secret rights relating to Predix s drug discovery technology.

Litigation or other proceedings or third-party claims of intellectual property infringement would require Predix to spend time and money and could prevent Predix from developing or commercializing Predix s drug candidates.

Predix s commercial success will depend in part on not infringing the patents and proprietary rights of other parties. Although Predix is not currently aware of any litigation or other proceedings or third-party claims of intellectual property infringement related to Predix s drug candidates, the pharmaceutical industry is characterized by extensive litigation regarding patents and other intellectual property rights. Other parties may obtain patents in the future and claim that Predix s use of technologies infringes these patents or that Predix is employing their proprietary technology without authorization. If another party claims Predix is infringing or misappropriating its technology, Predix could:

be required to defend a lawsuit, which is very expensive and time consuming, even if Predix ultimately prevails;

be required to defend against an interference proceeding in the United States Patent and Trademark Office, which can also be very expensive and time consuming, regardless of the outcome;

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receive an adverse decision in a lawsuit or in an interference proceeding resulting in the loss of some or all of Predix s rights to Predix s intellectual property, drug products or drug candidates;

be required to pay a large sum for damages, including possible punitive damages, if Predix is found to be infringing;

be prohibited from developing, making, using, selling or offering for sale Predix s drug candidates until Predix obtains a license from the infringed party, and this license may not be granted to Predix at all or may not be granted on satisfactory terms; and

be forced to develop non-infringing products, technologies and methods which, even if possible, could require substantial additional capital, could necessitate additional regulatory approval and could delay commercialization.

Although Predix has not received any communications from third parties challenging Predix s patents or patent applications covering Predix s drug candidates to date, third parties may challenge Predix s rights to, or the scope or validity of, Predix s patents.

Predix may be subject to claims that Predix or Predix s employees have wrongfully used or disclosed alleged trade secrets of their former employers.

As is commonplace in Predix s industry, Predix employs individuals who were previously employed at other biotechnology or pharmaceutical companies, including Predix s potential competitors. Predix may be subject to claims that these employees or Predix has inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if Predix is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Risks Relating to Predix s Israel Operations

Political and military instability and other factors may adversely affect Predix s operations in Israel.

Predix has significant operations in Israel and regional instability, military conditions, terrorist attacks, security concerns and other factors in Israel may directly affect these operations. Predix s employees in Israel are primarily computational chemists and are responsible for the computational chemistry for all of Predix s discovery stage programs. Accordingly, any disruption in Predix s Israeli operations could adversely affect Predix s ability to advance Predix s discovery stage programs into clinical trials. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel, and in particular since 2000, there has been an increased level of violence between Israel and the Palestinians. Any armed conflicts or political instability in the region could harm Predix s operations in Israel. In addition, many of Predix s employees in Israel are obligated to perform annual military reserve duty, and, in the event of a war, military or other conflict, Predix s employees could be required to serve in the military for extended periods of time. Predix s operations could be disrupted by the absence for a significant period of time of one or more of Predix s key employees or a significant number of Predix s other employees due to military service. Furthermore, several countries restrict business with Israel and Israeli companies, and these restrictive laws and policies could harm Predix s business.

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THE ANNUAL MEETING OF EPIX STOCKHOLDERS

Date, Time and Place

The annual meeting of EPIX stockholders will be held on , 2006, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., commencing at 10:00 a.m., local time. We are sending this joint proxy statement/ prospectus to you in connection with the solicitation of proxies by the EPIX board of directors for use at the EPIX annual meeting and any adjournments or postponements of the annual meeting.

Purposes of the EPIX Annual Meeting

The purposes of the EPIX annual meeting are:

1. To consider and vote upon the issuance of shares of EPIX common stock in the merger as contemplated by the Agreement and Plan of Merger, dated as of April 3, 2006, as amended, by and among EPIX Pharmaceuticals, Inc., EPIX Delaware, Inc., a wholly-owned subsidiary of EPIX, and Predix Pharmaceuticals Holdings, Inc., and approve the merger of Predix Pharmaceuticals Holdings, Inc. with and into EPIX Delaware, Inc.;

2. To approve an amendment to EPIX s amended and restated certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 shares to 100,000,000 shares, representing an additional 60,000,000 shares, which may be necessary to provide EPIX with sufficient authorized shares of common stock to issue in connection with the merger, as described in this joint proxy statement/ prospectus;

3. To authorize the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split of EPIX s issued and outstanding shares of common stock, at such ratio to be determined by the EPIX board of directors, which may be necessary for EPIX to maintain its eligibility for trading on The NASDAQ Global Market after completion of the merger, which is a condition to consummate the merger, as described in this joint proxy statement/ prospectus;

4. To elect two directors for a three-year term to expire at the 2009 annual meeting of stockholders and to elect one director for a one-year term to expire at the 2007 annual meeting of stockholders; provided, however, that, if the merger is completed, the EPIX board of directors will consist of the nine persons identified in this joint proxy statement/ prospectus;

5. To ratify the selection of Ernst & Young LLP as EPIX s independent registered public accounting firm for the fiscal year ending December 31, 2006;

6. To consider and vote on a proposal to approve the adjournment of the annual meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the annual meeting to approve Proposal Nos. 1, 2 and 3; and

7. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

Recommendation of EPIX s Board of Directors

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE ISSUANCE OF SHARES OF EPIX COMMON STOCK IN THE MERGER IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH ISSUANCE. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 1 TO APPROVE THE ISSUANCE OF SHARES OF EPIX COMMON STOCK IN THE MERGER AND APPROVE THE MERGER.

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THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT AN AMENDMENT TO EPIX S RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 40,000,000 SHARES TO 100,000,000 SHARES, WHICH REPRESENTS AN ADDITIONAL 60,000,000 SHARES, IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH AMENDMENT. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 2 TO APPROVE AN AMENDMENT TO EPIX S RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 40,000,000 SHARES TO 100,000,000 SHARES. THE APPROVAL OF PROPOSAL NO. 2 MAY BE NECESSARY TO ENABLE EPIX TO ISSUE THE REQUIRED NUMBER OF SHARES OF EPIX COMMON STOCK TO PREDIX STOCKHOLDERS, OPTION HOLDERS AND WARRANT HOLDERS IN CONNECTION WITH THE MERGER.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT AUTHORIZING THE EPIX BOARD OF DIRECTORS TO AMEND IN ITS DISCRETION EPIX S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF EPIX S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK, AT SUCH RATIO TO BE DETERMINED BY THE EPIX BOARD OF DIRECTORS, IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH AUTHORIZATION. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 3 TO AUTHORIZE THE EPIX BOARD OF DIRECTORS TO AMEND IN ITS DISCRETION EPIX S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF EPIX S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK, AT SUCH RATIO TO BE DETERMINED BY THE EPIX BOARD OF DIRECTORS. THE APPROVAL OF PROPOSAL NO. 3 MAY BE NECESSARY FOR EPIX TO MAINTAIN ITS ELIGIBILITY FOR TRADING ON THE NASDAQ GLOBAL MARKET AFTER COMPLETION OF THE MERGER, WHICH IS A CONDITION TO CONSUMMATION OF THE MERGER.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE ELECTION OF TWO DIRECTORS FOR A THREE-YEAR TERM TO EXPIRE AT THE 2009 ANNUAL MEETING OF STOCKHOLDERS AND THE ELECTION OF ONE DIRECTOR FOR A ONE-YEAR TERM TO EXPIRE AT THE 2007 ANNUAL MEETING OF STOCKHOLDERS IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE PROPOSAL. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 4 TO ELECT TWO DIRECTORS FOR A THREE-YEAR TERM TO EXPIRE AT THE 2009 ANNUAL MEETING OF STOCKHOLDERS AND TO ELECT ONE DIRECTOR FOR A ONE-YEAR TERM TO EXPIRE AT THE 2007 ANNUAL MEETING OF STOCKHOLDERS PROVIDED, HOWEVER, THAT, IF THE MERGER IS COMPLETED, THE EPIX BOARD OF DIRECTORS WILL CONSIST OF THE NINE PERSONS IDENTIFIED IN THE ACCOMPANYING JOINT PROXY STATEMENT/ PROSPECTUS.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED THAT THE RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS EPIX S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH RATIFICATION. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 5 TO RATIFY THE SELECTION OF ERNST & YOUNG LLP AS EPIX S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT ADJOURNING THE EPIX ANNUAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT,

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TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NOS. 1, 2 AND 3 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE PROPOSAL. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 6 TO ADJOURN THE EPIX ANNUAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NOS. 1, 2 AND 3.

Record Date and Voting Power

Only holders of record of EPIX common stock at the close of business on the record date, June 28, 2006, are entitled to notice of, and to vote at, the EPIX annual meeting. There were approximately 76 holders of record of EPIX common stock at the close of business on the record date. Because many of such 23,284,810 shares are held by brokers and other institutions on behalf of stockholders, EPIX is unable to estimate the total number of stockholders represented by these record holders. At the close of business on the record date, shares of EPIX common stock were issued and outstanding. Each share of EPIX common stock entitles the holder thereof to one vote on each matter submitted for stockholder approval. See EPIX Principal Stockholders for information regarding persons known to the management of EPIX to be the beneficial owners of more than 5% of the outstanding shares of EPIX common stock.

Voting and Revocation of Proxies

The proxy accompanying this joint proxy statement/ prospectus is solicited on behalf of the EPIX board of directors for use at the EPIX annual meeting.

If you are a stockholder of record, you may vote in person at the annual meeting or vote by proxy using the enclosed proxy card. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

To vote in person, come to the annual meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply mark, sign and date your proxy card and return it promptly in the postage-paid envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

To vote over the telephone, dial toll-free 1-800-652-VOTE (8683) in the United States or Canada using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 1:00 a.m., Eastern Time on , 2006 to be counted.

To vote on the Internet, go to www.computershare.com/expressvote to complete an electronic proxy card. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 1:00 a.m., Eastern Time on , 2006 to be counted.

All properly executed proxies that are not revoked will be voted at the EPIX annual meeting and at any adjournments or postponements of the annual meeting in accordance with the instructions contained in the proxy. If a holder of EPIX common stock executes and returns a proxy and does not specify otherwise, the shares represented by that proxy will be voted FOR Proposal No. 1 to approve the issuance of shares of EPIX common stock in the merger and to approve the merger; FOR Proposal No. 2 to approve an amendment to EPIX s restated certificate of incorporation to increase the number of authorized shares of common stock from 40,000,000 shares to 100,000,000 shares, which represents an additional 60,000,000 shares; FOR Proposal No. 3 to authorize the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split of EPIX s issued and outstanding shares of common stock, at such ratio between 1:1.25 to 1:4 to be determined by the EPIX board of directors; FOR Proposal No. 4 to elect two directors for a three-year term to expire at the 2009 annual meeting of stockholders and to elect one director for a one-year term to expire at the

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2007 annual meeting of stockholders; provided, however, that, if the merger is completed, the EPIX board of directors will consist of the nine persons identified in this joint proxy statement/ prospectus; FOR Proposal No. 5 to ratify the selection of Ernst & Young LLP as EPIX s independent registered public accounting firm for the fiscal year ending December 31, 2006; and FOR Proposal No. 6 to adjourn the annual meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal Nos. 1, 2 and 3 in accordance with the recommendation of the EPIX board of directors.

An EPIX stockholder who has submitted a proxy may revoke it at any time before it is voted at the EPIX annual meeting by executing and returning a proxy bearing a later date, providing proxy instructions via the telephone or the Internet (your latest telephone or Internet proxy is counted), filing written notice of revocation with the Secretary of EPIX stating that the proxy is revoked or attending the annual meeting and voting in person.

Required Vote

The presence, in person or by proxy, at the annual meeting of the holders of a majority of the shares of EPIX common stock outstanding and entitled to vote at the annual meeting is necessary to constitute a quorum at the meeting. Abstentions and broker non-votes will be counted towards a quorum. The affirmative vote of the holders of a majority of the shares present at the EPIX annual meeting, whether in person or by proxy, is required for approval of Proposal Nos. 1, 5 and 6 above. The affirmative vote of the holders of a majority of the outstanding common stock on the record date is required for approval of Proposal Nos. 2 and 3. The affirmative vote of a plurality of the votes cast in person or by proxy at the EPIX annual meeting is required for approval of Proposal No. 4.

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For, Withhold and Against votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal and will have the same effect as Against votes. Broker non-votes have no effect and will not be counted towards the vote total for Proposal Nos. 1, 4, 5 and 6 and will have the same effect as Against votes with respect to Proposal Nos. 2 and 3.

At the record date for the EPIX annual meeting, the current directors and executive officers of EPIX owned approximately 1.83% of the outstanding shares of EPIX common stock entitled to vote at the meeting.

Solicitation of Proxies

In addition to solicitation by mail, the directors, officers, employees and agents of EPIX may solicit proxies from EPIX s stockholders by personal interview, telephone, telegram or otherwise. EPIX will bear the costs of the solicitation of proxies from its stockholders. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries who are record holders of EPIX common stock for the forwarding of solicitation materials to the beneficial owners of EPIX common stock. EPIX will reimburse these brokers, custodians, nominees and fiduciaries for the reasonable out-of-pocket expenses they incur in connection with the forwarding of solicitation materials.

Other Matters

As of the date of this joint proxy statement/ prospectus, the EPIX board of directors does not know of any business to be presented at the EPIX annual meeting other than as set forth in the notice accompanying this joint proxy statement/ prospectus. If any other matters should properly come before the annual meeting, it is intended that the shares represented by proxies will be voted with respect to such matters in accordance with the judgment of the persons voting the proxies.

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THE SPECIAL MEETING OF PREDIX STOCKHOLDERS

Date, Time and Place

The special meeting of Predix stockholders will be held on , 2006, at the offices of Goodwin Procter LLP, One Exchange Place, Boston, Massachusetts, commencing at 9:00 a.m., local time. We are sending this joint proxy statement/ prospectus to you in connection with the solicitation of proxies by the Predix board of directors for use at the Predix special meeting and any adjournments or postponements of the special meeting.

Purposes of the Predix Special Meeting

The purposes of the Predix special meeting are:

1. To consider and vote upon Proposal No. 1 to approve and adopt the merger agreement and approve of the merger.

2. To consider and vote on Proposal No. 2 to adjourn the special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal No. 1.

3. To transact such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

Recommendations of Predix s Board of Directors

THE PREDIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE MERGER IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, PREDIX AND ITS STOCKHOLDERS AND HAS APPROVED THE MERGER AND THE MERGER AGREEMENT. THE PREDIX BOARD OF DIRECTORS RECOMMENDS THAT PREDIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 1 TO APPROVE AND ADOPT THE MERGER AGREEMENT AND APPROVE OF THE MERGER.

THE PREDIX BOARD OF DIRECTORS HAS CONCLUDED THAT THE PROPOSAL TO ADJOURN THE PREDIX SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF THE FOREGOING PROPOSAL NO. 1 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, PREDIX AND ITS STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE PROPOSAL. ACCORDINGLY, THE PREDIX BOARD OF DIRECTORS RECOMMENDS THAT PREDIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 2 TO ADJOURN THE PREDIX SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NO. 1.

Record Date and Voting Power

Only holders of record of Predix common stock and holders of record of Predix preferred stock at the close of business on the record date, June 28, 2006, are entitled to notice of, and to vote at, the Predix special meeting. Each share of Predix common stock entitles the holder thereof to one vote on each matter submitted for stockholder approval. The shares of Predix preferred stock entitle the holder thereof to one vote for each share of common stock into which such shares of preferred stock are convertible. The outstanding shares of Predix preferred stock currently convert into common stock on an 18-to-1 basis. There were 120 holders of record of Predix common stock with 1,097,357 shares of common stock issued and outstanding, 63 holders of record of Predix preferred stock, with 273,203,492 shares of Predix preferred stock, which are convertible into 15,177,898 shares of Predix common stock, issued and outstanding at the close of business on the record date. See Predix Principal Stockholders for information regarding persons known to the management of Predix to be the beneficial owners of more than 5% of the outstanding shares of Predix capital stock.

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Voting and Revocation of Proxies

The proxy accompanying this joint proxy statement/ prospectus is solicited on behalf of the Predix board of directors for use at the Predix special meeting.

If you are a stockholder of record, you may vote in person at the Predix special meeting or vote by proxy using the enclosed proxy card. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

To vote in person, come to the special meeting and you will be given a ballot when you arrive.

To vote using the proxy card, simply mark, sign and date your proxy card and return it promptly in the postage-paid envelope provided. If you return your signed proxy card to us before the special meeting, we will vote your shares as you direct.

All properly executed proxies that are not revoked will be voted at the Predix special meeting and at any adjournments or postponements of the special meeting in accordance with the instructions contained in the proxy. If a holder of Predix common stock or preferred stock executes and returns a proxy and does not specify otherwise, the shares represented by the proxy will be voted FOR Proposal No. 1 to approve and adopt the merger agreement and approve of the merger and FOR Proposal No. 2 to adjourn the special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Proposal No. 1, in accordance with the recommendation of the Predix board of directors.

A Predix stockholder who has submitted a proxy may revoke it at any time before it is voted at the Predix special meeting by executing and returning a proxy bearing a later date, filing written notice of revocation with the Secretary of Predix stating that the proxy is revoked or attending the special meeting and voting in person.

Required Vote

The presence, in person or by proxy, at the special meeting of the holders of a majority of the shares of Predix common and preferred stock outstanding (on an as-converted to Predix common stock basis) and entitled to vote at the Predix special meeting is necessary to constitute a quorum at the Predix special meeting. Approval of Proposal No. 1 requires the affirmative vote of the holders of: (a) a majority of the common stock and the preferred stock voting as a single class (on an as-converted to Predix common stock basis), (b) 60% of the Predix preferred stock voting as a single class (on an as-converted to Predix common stock basis) and (c) $66^2/3$ % of the shares of Predix Series C preferred stock (on an as-converted to Predix common stock basis), in each case, outstanding on the record date. Abstentions will be counted towards a quorum and will have the same effect as negative votes on Proposal No. 1, but will not be counted for any purpose in determining whether Proposal No. 2 is approved.

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The following Predix stockholders entered into voting agreements with EPIX on April 3, 2006: Caduceus Private Investment, L.P., UBS PW Juniper Crossover Fund, L.L.C., Hare and Company FAO: Finsbury Worldwide Pharma, Yozma II (Israel) L.P., Yozma Venture Capital Ltd, YVC-Yozma Management & Investments Ltd., as trustee for Yozma II (B.V.I.) L.P., PCM Venture Capital L.P., Yamanouchi Venture Capital and PA International Limited. Each has agreed in the voting agreements to vote all shares of Predix common stock and preferred stock beneficially owned by each as of the record date in favor of the approval and adoption of the merger agreement and the approval of the merger. Each also granted EPIX an irrevocable proxy to vote their shares of Predix common stock and preferred stock in favor of the adoption of the merger agreement and the approval of the merger. Approximately 120,069 shares of Predix common stock and 6,769,289 shares of Predix preferred stock (on an as-converted to Predix common stock basis), which represents approximately 40% of the outstanding Predix voting stock and as of the record date, are subject to the voting agreements and irrevocable proxies. See Voting Agreements.

Solicitation of Proxies

In addition to solicitation by mail, the directors, officers, employees and agents of Predix may solicit proxies from Predix stockholders by personal interview, telephone, telegram or otherwise. Predix will bear the costs of the solicitation of proxies from its stockholders.

Other Matters

As of the date of this joint proxy statement/ prospectus, the Predix board of directors does not know of any business to be presented at the Predix special meeting other than as set forth in the notice accompanying this joint proxy statement/ prospectus. If any other matters should properly come before the special meeting, it is intended that the shares represented by proxies will be voted with respect to such matters in accordance with the judgment of the persons voting the proxies.

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THE MERGER

This section of the joint proxy statement/ prospectus describes the material aspects of the merger. While EPIX and Predix believe that the description covers the material terms of the merger, this summary may not contain all of the information that is important to you. For a more complete understanding of the merger, you should carefully read this entire joint proxy statement/ prospectus, the attached annexes and the other documents referred to in this joint proxy statement/ prospectus.

General Description of the Merger

At the effective time of the merger, Predix will merge with and into EPIX Delaware, Inc., a wholly-owned subsidiary of EPIX, with EPIX Delaware, Inc. surviving the merger as a wholly-owned subsidiary of EPIX. Predix stockholders will receive shares of EPIX common stock in exchange for the shares of Predix stock they own. All options to purchase Predix common stock then outstanding granted under Predix s 2003 Stock Incentive Plan and Physiome Sciences, Inc. 1997 Stock Option Plan, as amended, and all warrants to purchase Predix common stock or preferred stock then outstanding at the effective time of the merger shall be assumed by EPIX.

The terms of the merger agreement provide for the issuance of EPIX common stock to Predix stockholders in exchange for all of the outstanding shares of Predix, with Predix stockholders receiving 1.239411 shares of EPIX common stock, subject to adjustment to account for the reverse stock split if implemented, for each share of Predix common stock and preferred stock, on an as-converted to Predix common stock basis, that they hold. In approving the merger agreement, the holders of Predix preferred stock will be agreeing to accept the merger consideration as set forth in the merger agreement in lieu of any liquidation preferences that they would be entitled to under the Predix restated certificate of incorporation, as amended, prior to the consummation of the merger. Upon completion of the merger, EPIX stockholders will retain approximately 53%, and the former Predix stockholders will own approximately 47%, of outstanding shares of EPIX s common stock, based on the number of shares of EPIX common stock and Predix common stock and preferred stock outstanding as of the date of the merger agreement.

In addition, EPIX will make a milestone payment to Predix stockholders, option holders and warrant holders in the amount of $35 million upon the occurrence of certain events. EPIX may elect to make the milestone payment in cash or shares of EPIX common stock, or any combination thereof. The milestone payment will be allocated and paid to each Predix holder of record of Predix shares, options or warrants that they hold at the time of the merger, in each case, pro rata based upon the percentage of the initial merger consideration that such holder would have received at the time of the merger and assuming that, for the purpose of the milestone payment only, that each Predix warrant and option to purchase Predix shares (whether or not vested) was exercised in full immediately prior to the merger. In no event will the shares of EPIX common stock issuable at the effective time of the merger, including the shares of EPIX common stock issuable upon exercise of Predix options and warrants assumed by EPIX in the merger, exceed 49.99% of the outstanding EPIX common stock immediately after the effective time of the merger.

Predix stockholders, option holders and warrant holders will be entitled to receive the milestone payment within 90 days following the occurrence, as determined by the non-Predix members of the combined company s board of directors, whether before or after the consummation of the merger, of any of the following events between the date of this joint proxy statement/ prospectus and June 30, 2008:

- receipt of statistically significant final results from a randomized, placebo- or active comparator- controlled, double-blinded Phase II or Phase III clinical trial of:
  - PRX-00023 for the treatment of generalized anxiety disorder, depression, attention deficit hyperactivity disorder or other neuropsychiatric disorder with at least 100 patients;
  - PRX-03140 for the treatment of Alzheimer s disease or other cognitive disorders with at least 60 patients;

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PRX-08066 for the treatment of pulmonary artery hypertension, chronic obstructive pulmonary disease or a different indication with at least 60 patients;

PRX-07034 for the treatment of obesity, cognitive disorders or a different indication with at least 60 patients; or

entering into a strategic partnership for any Predix drug candidate, which provides milestone and research funding payments of more than $50 million, of which $20 million must be received by June 30, 2008 in unrestricted cash through non-refundable license fees, research funding payments, and/or premiums paid in connection with an equity investment by the strategic partner within 60 days following entry into the strategic partnership.

The milestone payment will be paid within 90 days after the achievement of a milestone event, at the option of the non-Predix members of the combined company s board of directors, either:

in cash, shares of EPIX common stock or any combination thereof with the number of such shares to be issued determined based on the five-day average closing price of EPIX common stock on The NASDAQ Global Market ending on the trading day that is ten days prior to the payment date; or

$20 million payable in accordance with the preceding bullet and $15 million payable on the date that is 12 months after the payment of the initial $20 million in shares of EPIX common stock, with the number of such shares to be issued determined based on 75% of the 30-day average closing price of EPIX common stock on The NASDAQ Global Market ending on the trading day that is ten days prior to the payment date. If, as a result of the 49.99% limitation described below, the entire $15 million payment cannot be made in shares of EPIX common stock, the balance will be paid in cash plus interest calculated from the milestone payment date at the rate of 10% per year.

In no event may the milestone be paid in shares of EPIX common stock to the extent that such shares would exceed 49.99% of the outstanding shares of EPIX common stock immediately after such milestone payment, when combined with all shares of EPIX common stock issued in the merger and issuable upon exercise of all Predix options and warrants assumed by EPIX in the merger. As a result of this limitation, if the milestone payment is triggered before EPIX issues a significant number of new shares of its capital stock or before consummation of the merger, all or a substantial portion of the milestone payment will be paid in cash. Additionally, the milestone will be paid in cash to the holders of Predix options and warrants assumed by EPIX in the merger.

Background of the Merger

On September 14, 2005, the EPIX board of directors appointed Michael J. Astrue as Interim Chief Executive Officer. Mr. Astrue replaced Michael Webb, who resigned from EPIX and its board of directors after Mr. Webb and the EPIX board of directors came to the mutual decision that EPIX needed a change in leadership to help it execute its business plan in the diagnostic imaging field and define and pursue opportunities for growth beyond diagnostic imaging. Mr. Astrue was hired to, among other things, pursue opportunities for growth beyond the diagnostic imaging field and to assist the EPIX board of directors in the search for a permanent Chief Executive Officer.

During the interview and recruitment process prior to his appointment as EPIX s Interim Chief Executive Officer and continuing thereafter, Mr. Astrue had informal discussions with members of the EPIX board of directors about strategies for pursuing opportunities for growth beyond the diagnostic imaging field. After his appointment in September 2005, Mr. Astrue and the EPIX board of directors agreed to develop a list of companies with whom to discuss the possibility of a combination with EPIX. The criteria used to evaluate potential merger candidates included (a) the number of drug candidates such companies have in human clinical trials, (b) the quality and depth of management of the merger candidate, (c) the geographic location of such companies, with a clear preference given to Massachusetts-based or virtual companies, and (d) the avoidance of more speculative technologies. Based on these

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criteria, Mr. Astrue and the EPIX board of directors agreed to develop a list of potential merger candidates.

During October 2005, EPIX identified approximately 30 companies that broadly matched these criteria. Of these, ten companies, including Predix, were prioritized as the companies that most closely matched these criteria. Each of the ten companies prioritized by EPIX had at least one product in clinical trials or expected to be in clinical trials within six months, was based in eastern Massachusetts, had technology that was not speculative based on a preliminary evaluation by EPIX s management and ranged in value from approximately $30 million to $200 million, based on the estimates of EPIX s management. The EPIX board of directors instructed EPIX s management to review these companies more closely and asked EPIX s management to arrange for representatives of these companies to meet the EPIX board of directors. Mr. Astrue and/or Sheila DeWitt, Ph.D., EPIX s Vice President of Business Development and Strategic Planning, contacted each of these companies about the possibility of a combination with EPIX. Each of the companies contacted during this process was invited to make a presentation to the EPIX board of directors. As part of the process of contacting these companies, on October 23, 2005, Mr. Astrue telephoned Dr. Michael Kauffman, President and Chief Executive Officer of Predix. During this conversation Mr. Astrue and Dr. Kauffman discussed EPIX s potential interest in acquiring Predix.

During October and November 2005, EPIX s management reviewed publicly available material related to the ten companies identified by the EPIX board of directors and held preliminary discussions with each of these companies. The discussions with each of the ten companies included some or all of the following topics: an overview of the technology of the potential merger candidate; an overview of any products being developed by the potential merger candidate, including any potential significant technical, clinical or regulatory hurdles and the size of the likely commercial markets for such products; a financial overview of the potential merger candidate; the depth of management of the potential merger candidate; an overview of EPIX s technology, products and regulatory status; an overview of EPIX s financial position; and an overview of EPIX s partnership with Schering AG. At no point in these discussions did EPIX make or receive a formal offer from any of these potential merger candidates.

In August 2005, Predix filed with the Securities and Exchange Commission a registration statement on Form S-1 covering the sale of $70,000,000 of Predix common stock in connection with its proposed initial public offering. In October 2005, Predix postponed the offering, and subsequently withdrew the registration statement. The withdrawal of the offering and the uncertainty of the public equity market required Predix to consider alternative capital-raising transactions, including combinations with other companies, strategic collaborations and private placements of debt or equity securities with existing or new investors that would result in sufficient capital, now and in the future, to fund Predix s product development programs.

In late September and early October 2005, EPIX engaged Dr. Neil Kirby and Dr. Michael Gilman as consultants to assist EPIX in its due diligence review of these companies, specifically to analyze each company s product development plans and technology, respectively. Certain of EPIX s existing consultants also assisted EPIX in its review of these companies.

On October 25, 2005, Dr. Kauffman contacted Mr. Astrue via e-mail to indicate that Predix was interested in participating in EPIX s process for evaluating potential merger candidates and accepted the invitation to present an overview of Predix s business and technology to the EPIX board of directors.

On October 27, 2005, the EPIX board of directors met to discuss the status of discussions with potential merger candidates. Three of the merger candidates made presentations to the EPIX board of directors at this meeting. These presentations included an overview of the presenting company s business and technology as well as a rationale for a combination with EPIX.

On October 28, 2005, EPIX and Predix entered into a confidentiality agreement.

Throughout October and November 2005, EPIX conducted preliminary due diligence on each of the potential merger candidates.

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On November 1, 2005, EPIX engaged Chestnut Securities, Inc. to assist EPIX in evaluating the previously identified merger candidates and to explore other opportunities to diversify.

Throughout November 2005, EPIX and Chestnut Securities had numerous discussions about the possibility of a combination of each previously identified merger candidate with EPIX.

Throughout November and December 2005, Predix was also exploring a potential private placement of its securities and opportunities to enter into a strategic transaction with a public company with sufficient capital to fund its product development programs, and was conducting active discussions and due diligence with respect to such potential opportunities. At no point in these discussions did Predix make or receive a formal offer regarding such opportunities. Predix s decision to pursue a transaction with EPIX over these other potential opportunities was based on, among other things, the preliminary valuations of Predix being discussed with respect to the potential transaction, EPIX s assets, financial position and access to public markets, and the likelihood of being able to consummate a transaction on terms acceptable to the Predix board of directors.

On November 21, 2005, the EPIX board of directors again met to discuss the status of discussions with potential merger candidates. Five of the merger candidates, including Predix, made presentations to the EPIX board of directors regarding the possibility of a business combination between such companies and EPIX. On the basis of these presentations and the preliminary due diligence performed by EPIX s management, the EPIX board of directors determined that Predix was an attractive merger candidate, and instructed EPIX s management to continue discussions with Predix about the possibility of a combination of the two companies. This determination was based upon the fact that: (a) Predix had several advanced-stage clinical programs, including PRX-00023 in development for the treatment of generalized anxiety disorder and PRX-03140 in development for the treatment of Alzheimer s disease; (b) if approved, the EPIX board of directors believed that the commercial markets for PRX-00023 and PRX-03140 were likely to be substantial; (c) the EPIX board of directors viewed the Predix board of directors and members of Predix s senior management as capable and experienced; (d) Predix was based in Massachusetts which the EPIX board of directors believed would ease the integration of EPIX and Predix upon completion of the proposed transaction; (e) Predix had a discovery platform that the EPIX board of directors believed was capable of producing additional compounds for clinical development; and (f) Predix expressed an interest in pursuing EPIX s core diagnostic imaging franchise together with its therapeutic products under development.

On November 29, 2005, EPIX hired Philip Chase as Vice President and General Counsel to assist in the analysis, negotiation and potential consummation of a merger transaction.

On November 29, 2005, the Predix board of directors met to discuss strategic alternatives following the withdrawal of Predix s initial public offering, including a possible merger with another public biotechnology company candidate engaged in drug discovery.

On November 29, 2005, Frederick Frank, Chairman of the Predix board of directors, telephoned Mr. Astrue to discuss the potential valuation of Predix. Specifically, Mr. Frank indicated that Predix believed that $175 million was an appropriate valuation of Predix.

Between November 29, 2005 and April 3, 2006, Mr. Astrue and Christopher Gabrieli, Chairman of the EPIX board of directors, regularly discussed with Mr. Frank and Dr. Kauffman the proposed terms and structure of a potential merger between EPIX and Predix.

On December 2, 2005, members of the EPIX board of directors met with members of EPIX management to discuss the status of negotiations between EPIX and potential partners.

On December 2, 2005, EPIX engaged Health Advances to assist EPIX in conducting due diligence by analyzing the market potential of product candidates owned or licensed by potential merger candidates, including Predix.

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On December 13, 2005, Predix engaged Lehman Brothers as its financial advisor to advise Predix with regard to a potential business combination or other strategic transaction, including the transaction with EPIX, and, if requested by Predix, to participate in negotiations on Predix s behalf.

On December 14, 2005, Messrs. Astrue, Wirth and Gabrieli and Albert Holman of Chestnut Securities met with Dr. Kauffman and Mr. Frank and Jonathan Silverstein, a director of Predix, at Logan International Airport in Boston, Massachusetts to discuss the process EPIX intended to use for evaluating potential merger candidates and the range of possible valuations of Predix. In addition, there was substantial discussion about the form of consideration that EPIX would pay in a transaction and the structure of a transaction. EPIX and Predix also agreed to begin formal due diligence on one another.

On December 15, 2005, the EPIX board of directors met to discuss the status of the discussions with the various potential merger candidates. Based on the previous presentations of the candidates to the EPIX board of directors and the EPIX board of directors evaluation of these merger candidates, the EPIX board of directors decided to narrow the list of potential merger candidates to four companies, of which Predix was one. The considerations relied on by the EPIX board of directors to narrow the list of potential acquisition candidates to four included excessive valuation expectations of the excluded parties, EPIX s evaluation of technical and commercial feasibility of a potential partner s drug candidates and the perceived quality of management of the potential partner. The EPIX board of directors instructed management to continue negotiations with Predix and three other companies identified as attractive merger candidates.

Between December 15, 2005 and April 3, 2006, EPIX continued discussions with each of the four companies identified by the EPIX board of directors as the preferred potential merger candidates, including Predix. EPIX indicated to the three companies other than Predix that EPIX had identified and was in negotiations with a preferred potential merger candidate and that EPIX would be interested in exploring opportunities to complete a transaction with each should the discussions with the preferred merger candidate fail to result in a definitive agreement. Each of these three companies agreed to continue to have limited discussions with EPIX, including discussions involving additional review of technical, clinical and regulatory data of the potential merger candidates and periodic updates on EPIX s view of the likelihood of entering into a definitive agreement with its preferred potential merger candidate. At no point in these discussions did EPIX make or receive a formal offer from any potential merger candidate other than Predix.

On December 15, 2005, the Predix board of directors again met to discuss strategic alternatives available to Predix. The Predix board of directors discussed the potential advantages and disadvantages of either entering into a merger transaction with one of the two public company merger candidates, of which EPIX was one, being considered by Predix, or undertaking a private offering of Predix s securities.

Between December 15, 2005 and April 3, 2006, the management team of EPIX met regularly internally and with EPIX s outside legal counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., and financial advisors, Chestnut Securities, and Needham & Company, LLC after their engagement on February 16, 2006, to discuss the status of on-going negotiations and due diligence with the merger candidates, including Predix.

On December 19, 2005, Dr. Kauffman and other members of senior management of Predix presented a technical overview of Predix s lead product candidates to Mr. Astrue and other members of EPIX s management and consultants at EPIX s offices in Cambridge, Massachusetts.

On December 21, 2005, Dr. Kauffman contacted Mr. Gabrieli via e-mail to discuss the timing of a potential transaction and the possibility of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. beginning the preparation of the legal documentation, including a merger agreement, for the proposed transaction while the parties continued due diligence and discussions concerning structure and consideration.

On December 29, 2005, Mr. Frank telephoned Mr. Astrue to continue discussions regarding the valuation of Predix and form of consideration to be paid by EPIX. Messrs. Astrue and Frank discussed whether the initially proposed $175 million valuation of Predix was appropriate.

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Between December 31, 2005 and April 3, 2006, the management of EPIX met regularly with Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Chestnut Securities, and Needham & Company, LLC after their engagement on February 16, 2006, and the management of Predix met with their outside legal counsel, Goodwin Procter LLP, and Lehman Brothers to discuss the status of ongoing negotiations and due diligence. In addition, during the same period, representatives of Chestnut Securities and Lehman Brothers, regularly discussed the terms and structure of a potential merger between EPIX and Predix and performed and discussed due diligence.

On January 6 and January 10, 2006, a team of EPIX s management and representatives of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Chestnut Securities performed due diligence at the offices of Goodwin Procter LLP in Boston, Massachusetts, and on January 9, 2006, a team of EPIX s management and EPIX s advisors performed additional technical due diligence at the offices of Predix in Lexington, Massachusetts.

On January 12, 2006, Mr. Holman and Mr. Frank agreed that EPIX would pay most of the purchase price in stock. They also discussed the process for valuing EPIX and Predix for purposes of determining the consideration to be paid to Predix s equity holders in a potential transaction. Specifically, Mr. Holman and Mr. Frank discussed using the market value of EPIX common stock at the time an agreement was signed for determining the value of consideration to be paid. Mr. Holman and Mr. Frank agreed that the parties needed to agree on a specific value for Predix, but did not discuss such value at that time.

On January 20, 2006, Health Advances presented the EPIX board of directors and consultants a commercial analysis of Predix s lead product candidate, PRX-00023, for the treatment of generalized anxiety disorder. This commercial analysis included an overview of the current market, competitive landscape and revenue projections. In addition, the EPIX board of directors discussed the potential terms of a transaction with Predix and instructed EPIX s management and Chestnut Securities to continue to perform due diligence on Predix. In particular, the EPIX board of directors discussed the valuation of Predix. The EPIX board of directors noted that its valuation of Predix was predicated on Predix s receipt of positive clinical data or the consummation of a substantial business development transaction. The EPIX board of directors discussed the possibility of including a milestone payment relating to significant clinical efficacy or consummation of a substantial business development transaction in the potential transaction.

On January 24, 2006, management of EPIX and Health Advances and Dr. Kauffman and other members of Predix s management and representatives of Chestnut Securities discussed the market size for generalized anxiety disorder and depression. After these discussions, EPIX decided to contact individuals identified by Predix and to engage independent experts to assist the EPIX board of directors to accurately estimate the potential market size for treatments for both generalized anxiety disorder and depression.

After these discussions, EPIX engaged Dr. Maurizio Fava and Dr. Jerrold Rosenbaum to assist it in analyzing the potential safety and efficacy profile of PRX-00023 and Dr. Brad Hyman to assist it in analyzing the potential safety and efficacy profile of Predix s second product candidate, PRX-03140 for the treatment of Alzheimer s disease.

On January 30 and January 31, 2006, representatives of EPIX and Predix discussed outstanding due diligence items, including the status of discussions between Predix and potential out-licensing partners for Predix s product candidates and the status of potential in-licensing opportunities for EPIX.

On February 1, 2006, Dr. Kauffman and members of Predix s management met with representatives of Health Advances at the offices of EPIX in Cambridge, Massachusetts to discuss Health Advances assessment of the generalized anxiety disorder market. Mr. Astrue and other members of EPIX s management and EPIX advisors were also present.

On February 7, 2006, several members of Predix s management conducted due diligence of EPIX at the offices of EPIX in Cambridge, Massachusetts. Messrs. Chase and Holman separately discussed with Dr. Kauffman the possibility of Dr. Kauffman addressing the EPIX board of directors regarding Predix s lead product candidates and the market potential of PRX-00023 in each of generalized anxiety disorder and depression.

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Between February 6 and February 9, 2006, representatives of Lehman Brothers had several discussions with representatives of EPIX regarding the proposed terms of the potential transaction. During this time, Messrs. Gabrieli and Frank also discussed the valuation of Predix. Mr. Gabrieli proposed total consideration, including contingent payments, of approximately $120 million to $125 million and Mr. Frank indicated that Predix believed that total consideration, including contingent payments, of approximately $130 million to $135 million was appropriate. Messrs. Gabrieli and Frank agreed to make some portion of the consideration to be paid to Predix equity holders contingent on the receipt of positive clinical data or the consummation of a substantial business development transaction although they continued to discuss what portion of the total consideration should be contingent. Other topics of discussion included the upcoming board of directors meetings of EPIX and Predix, including a discussion of Dr. Kauffman s proposed presentation.

On February 10, 2006, the EPIX board of directors met to discuss the status of due diligence and negotiations. At that meeting, Drs. Fava, Rosenbaum and Hyman presented an analysis of the risks and potential benefits associated with PRX-00023 and PRX-03140. Also at that meeting, Dr. Gilman presented conclusions with respect to the strengths and weaknesses of Predix s technology platform. Each of Drs. Fava, Rosenbaum, Hyman and Gilman also answered questions from members of the EPIX board of directors. Representatives of Health Advances also led a discussion regarding additional commercial analyses performed by them related to PRX-00023 for both the treatment of generalized anxiety disorder and depression. These analyses included an overview of the current market, competitive landscape and revenue projections. Dr. Kauffman also presented Predix s perspective on the analyses performed by Health Advances and provided an overview of the potential product pipeline and management of the combined company. In addition, Mr. Holman discussed a preliminary financial valuation analysis of Predix with the EPIX board of directors, which included various assumptions regarding, among other things, the success of Predix s future clinical trials and the probability of Predix entering into a substantial business development transaction. The EPIX board of directors reiterated the importance of making a significant portion of consideration sought by Predix contingent upon the receipt of positive clinical data or the consummation of a substantial business development transaction.

On February 10, 2006, representatives of Lehman Brothers discussed with representatives of EPIX the consideration to be paid by EPIX in the transaction. EPIX and Predix agreed that, based on EPIX s market capitalization at that time, the consideration to be paid to Predix equity holders in a potential transaction would consist of approximately 49% of the EPIX common stock outstanding after the transaction, on a fully-diluted basis, and a contingent payment based on the receipt of positive clinical data or the consummation of a substantial business development transaction within approximately two years of closing the merger transaction. In determining the value of the contingent payment, the parties discussed a valuation of Predix of up to approximately $128 million, subject to adjustments for any future financing of Predix.

On February 13, 2006, the Predix board of directors convened by teleconference to discuss the proposed merger transaction with EPIX, including the proposed deal structure and terms, and the advantages and disadvantages of the proposed transaction.

After the February 10, 2006 meeting of the EPIX board of directors and the February 13, 2006 meeting of the Predix board of directors, each board of directors authorized management of their respective company to negotiate the terms of a merger agreement consistent with the terms generally discussed at each board of directors meeting.

On February 15, 2006, EPIX engaged Needham & Company, LLC to assist it in evaluating the potential merger and valuing Predix.

On February 15, 2006, Predix circulated via electronic mail to the members of the Predix board of directors an analysis prepared by Lehman Brothers. The analysis compared a potential EPIX transaction with potential scenarios for Predix as a going concern on a stand-alone basis.

On February 16, 2006, EPIX provided Predix with the initial draft of the merger agreement.

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Between February 16 and April 3, 2006, EPIX and Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Predix and Goodwin Procter LLP exchanged numerous drafts of the merger agreement and its various exhibits, including the form of voting agreement, the form of lock-up agreement and the form of affiliates agreement. Throughout this period, EPIX, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Chestnut Securities and Predix, Goodwin Procter LLP and Lehman Brothers engaged in negotiations regarding the merger agreement and related documentation. During this period, the parties also discussed termination fees, closing conditions, possible financing mechanisms for Predix and the terms of thereof, potential board and management structures of the combined company and the structure of the transaction. Throughout this period, representatives of EPIX and Predix continued their diligence investigation of the other party.

On February 22, 2006, Dr. Kauffman and an advisor met with Mr. Astrue and his advisors at EPIX to discuss communication strategies in the event that EPIX and Predix entered into a transaction.

On February 27, 2006, Mr. Astrue met with a member of the board of directors and the chief executive officer of a company he had previous discussions with about a possible transaction with EPIX, but was not involved in EPIX s formal review process to again discuss the possible combination of EPIX and this company.

On March 1, 2006, members of management of EPIX, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Chestnut Securities and Predix, Goodwin Procter LLP and Lehman Brothers met at the offices of Goodwin Procter LLP in Boston, Massachusetts to discuss significant issues related to a potential merger between EPIX and Predix and the then-current draft of the merger agreement, including the composition of the management and board of directors of the combined company, the circumstances in which any contingent payment would be made to the Predix equity holders, the circumstances in which either party would have the right to terminate the merger agreement and the circumstances in which any termination fee would be paid by either company in the event that the merger was not consummated.

On March 2, 2006, as a follow up to Mr. Astrue s February 27, 2006 meetings, members of EPIX s management met with members of management of the new merger candidate to discuss this candidate s product portfolio.

On March 3, 2006, Messrs. Gabrieli and Frank discussed possible financing mechanisms for Predix pending the closing of any transaction with EPIX, the possibility of making a minimum stock price for EPIX a closing condition to the merger, composition of the combined company s board of directors and management and other issues related to the structure of the transaction.

On March 6, 2006, the EPIX board of directors met and discussed the status of negotiations with Predix. The EPIX board of directors also discussed the possibility of adding additional members to the EPIX board of directors. The management of the new merger candidate also presented to the EPIX board of directors. The EPIX board of directors instructed EPIX s management to begin due diligence on this company.

Throughout March 2006, members of EPIX s management met several times with representatives of the new merger candidate to perform due diligence.

On March 8, 2006, the Predix board of directors convened by teleconference to discuss the merger transaction. A representative of Lehman Brothers provided a detailed summary of the proposed terms of a merger between Predix and EPIX. Mr. Gabrieli then joined the meeting and presented EPIX s view of the proposed merger. Following the presentations, the Predix board of directors discussed the proposed transaction, after which they authorized Predix to continue negotiations in connection with a potential merger transaction with EPIX.

From March 13 through March 27, 2006, Messrs. Gabrieli and Astrue and Dr. Kauffman, along with representatives of Chestnut Securities and Lehman Brothers, discussed at various times the structure, timing and terms of the proposed transaction as well as possible communication strategies related to the announcement of the potential merger.

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On March 16, 2006, the Predix board of directors met to discuss the status of the proposed merger transaction with EPIX, as well as the possibility of a financing of Predix. A representative of Lehman Brothers provided the directors with an update regarding the status of negotiations regarding the structure and terms of the merger transaction with EPIX.

On March 27, 2006, the EPIX board of directors met telephonically to discuss the terms of a potential merger with Predix. In particular, the EPIX board of directors discussed open issues relating to the size, timing and form of a milestone payment.

On March 29, 2006, the Predix board of directors convened by teleconference to discuss the merger transaction as well as a proposed financing of Predix by certain existing Predix investors. The Predix board of directors resolved to authorize Predix to enter into the financing arrangement, along with all other acts necessary to complete the financing, including amendments to the certificate of incorporation and the stockholders agreement.

Between March 29 and April 1, 2006, Messrs. Gabrieli and Frank and representatives of Chestnut Securities and Lehman Brothers discussed the circumstances in which a milestone payment would be paid and the possibility of deferring a portion of the milestone payment.

On March 30, 2006, the EPIX board of directors met to discuss the status of and the terms of the potential merger with Predix. Representatives of Needham & Company, LLC, financial advisor to EPIX, discussed the results of Needham & Company, LLC s analyses of stock trading history, selected recent mergers and acquisitions in the biotechnology industry, selected recent initial public offerings of biotechnology companies and selected companies comparable to Predix. Based on these analyses, a representative of Needham & Company, LLC reported that, in the opinion of Needham & Company, LLC, as of March 30, 2006, the consideration to be paid by EPIX in the proposed acquisition of Predix is fair to EPIX and its stockholders from a financial point of view. The board of directors discussed the status of negotiations, the advisability of entering into the transaction and provided guidance with respect to how to resolve open issues in the negotiations between EPIX and Predix.

On April 1, 2006, Messrs. Gabrieli and Frank and representatives of Chestnut Securities and Lehman Brothers agreed to fix the aggregate contingent milestone payment at $35 million.

On April 2, 2006, the parties completed their diligence reviews and finalized the terms of the merger agreement and related documentation.

On April 2, 2006, the Predix board of directors convened by teleconference to discuss the merger agreement and merger, including the material terms of the transaction and the consideration to be received by the Predix stockholders. Following the discussion, the Predix board of directors approved the merger transaction with EPIX and the merger agreement and authorized all acts necessary to complete the merger.

On April 2, 2006, the EPIX board of directors met telephonically. Mr. Holman led a discussion regarding the resolution to the outstanding issues identified at the meeting of the board of directors held on March 30, 2006. After discussion of these issues and other matters relating to the merger, the EPIX board of directors voted unanimously to approve the merger with Predix and to recommend that stockholders of EPIX approve the merger with Predix.

On April 3, 2006, EPIX and Predix entered into a definitive merger agreement and issued a joint press release announcing the transaction.

On July 10, 2006, EPIX and Predix entered into amendment no. 1 to the merger agreement to provide for the extension of the termination date of the merger agreement from July 31, 2006 to August 31, 2006 and to reflect certain technical modifications.

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EPIX s Reasons for the Merger

In evaluating the merger, the EPIX board of directors consulted with EPIX s management, EPIX s outside legal and financial advisors and external experts in various aspects of its review of Predix s clinical development programs, the potential markets for Predix s drug candidates and various other market analyses. These consultations included, among other things, extensive discussions regarding: (a) strategic alternatives to the merger, including extensive discussions of other potential merger candidates and of continuing to operate the EPIX business without entering into a merger transaction, (b) the business and strategic plans of the combined company and of an independent EPIX, (c) the risks associated with executing the business and strategic plans of the combined company and of an independent EPIX, (d) the financial position of the combined company and of an independent EPIX, (e) the status of the FDA s approval process for Vasovist in particular and imaging products in general, (f) the prospects for executing the EPIX board of directors previously disclosed strategy of obtaining therapeutic products through internal development, in-licensing transactions, or alternative transformative transactions, (g) the historical trading prices of EPIX s common stock and (h) the terms and conditions of the merger agreement.

The EPIX board of directors also considered that it had previously made the determination that EPIX should diversify from the diagnostic imaging business and expand into the development of therapeutic drug products. Since making that determination, the EPIX board of directors has examined several possible means of acquiring therapeutic products, including through internal development, in-licensing and corporate acquisitions. In September 2005, the EPIX board of directors hired Michael J. Astrue as Interim Chief Executive Officer to thoroughly examine the prospects of EPIX entering into a merger transaction. In light of EPIX s prior efforts to in-license technology and to develop therapeutic products internally, EPIX determined that it needed to supplement those means of obtaining therapeutic products by exploring the possibility of entering into a corporate acquisition.

As discussed more fully in the Background of the Merger above, EPIX entered into a process by which it examined a number of potential merger candidates and determined that Predix was the most suitable candidate with which to enter into a merger transaction. In reaching this determination, the EPIX board of directors considered a number of additional positive factors, including the following:

In examining the quality of potential merger candidates, EPIX focused on a number of factors, including the depth of the potential candidate s product pipeline. In particular, EPIX reviewed companies with at least two products in clinical development. The EPIX board of directors noted that Predix has three product candidates in clinical development, and that Predix expects to submit an IND to the FDA for a fourth product candidate in 2006. The EPIX board of directors also considered that some of Predix s product candidates are being or will be investigated for multiple indications. The EPIX board of directors noted that Predix had as many or more product candidates in clinical development than any of the other potential merger candidates considered by the EPIX board of directors.

In examining the quality of potential partners, EPIX also focused on the presence or absence of a technology platform that could provide the basis for development of additional product candidates. The EPIX board of directors noted Predix s drug development history, including the speed and efficiency with which Predix s discovery scientists were able to produce drug candidates with affinity for the intended target receptor and a lack of affinity for other off-target receptors. The EPIX board of directors believes that Predix s efficient and effective drug discovery platform is well-positioned to continue to deliver product candidates for development by the combined company.

The EPIX board of directors noted that there are a large number of therapeutics companies that develop therapeutic product candidates based on technologies that the EPIX board of directors considers speculative, including gene therapy products and RNA interference products. The EPIX board of directors deliberately sought companies whose technology it believed was less speculative and based on established science and drug development methods. Although the EPIX board of directors recognized that substantial risks still remain in the development of therapeutic products, it

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noted that Predix s technology allows for the discovery and development of drug candidates that interact with clinically and commercially validated target proteins. The EPIX board of directors believes that the acceptance of these proteins as viable therapeutic targets and Predix s ability to develop drug candidates that have affinity for these target receptors and lack affinity for other off-target receptors substantially reduces the risks inherent in drug discovery and development.

In examining the quality of potential merger candidates, EPIX focused on the presence or absence of a strong permanent management team. The EPIX board of directors noted at the time that Mr. Astrue s agreement with EPIX was scheduled to expire in May 2006. In addition, EPIX has been without a Chief Financial Officer since July 2005. The EPIX board of directors also noted that several other of EPIX s significant management positions are currently filled by consultants or by employees operating in an interim capacity. For the foregoing reasons, the EPIX board of directors considered the capability of the management of each of the potential merger candidates to lead a combined company after the departure of Mr. Astrue and the others filling management positions at EPIX on a short-term basis. The EPIX board of directors believes Dr. Kauffman, in particular, has the leadership skills and track record of success in the clinical development of therapeutic products to lead the combined company. The EPIX board of directors also noted that strengths of the other members of Predix s management were highly complementary to the strengths of the full-time members of EPIX s management team.

The EPIX board of directors also considered the commitment of potential merger candidates to maintain EPIX s core franchise in medical imaging in order to build a diversified specialty pharmaceuticals company.

The EPIX board of directors noted the difficulties inherent in combining any two organizations and also noted the significant incremental difficulty in integrating two organizations that are geographically diverse. The EPIX board of directors, therefore, limited its search to companies in and around Boston, Massachusetts, or to virtual companies whose management expressed a willingness to move to the greater Boston, Massachusetts area. Predix, based in Lexington Massachusetts, clearly met this pre-specified criteria.

The EPIX board of directors also considered the opinion that Needham & Company, LLC rendered that, as of March 30, 2006, the consideration to be paid by EPIX in the merger to the equity holders of Predix (including the holders of options and warrants) was fair, from a financial point of view, to EPIX and the holders of EPIX common stock.

The members of the EPIX board of directors also identified and considered a number of factors, uncertainties and risks, including the following:

the risk that the potential benefits of the merger might not be realized, including the risk that EPIX will not successfully convert its focus from solely developing diagnostics product candidates to developing a combination of diagnostic product candidates and therapeutic product candidates;

the fact that Predix s product candidates are at early stages of development, are subject to significant development risks and target extremely competitive markets, which the EPIX board of directors weighed against the portfolio of other potential transaction candidates that were considered and against the risks inherent in continuing to pursue the approval of Vasovist in the United States;

the price volatility of EPIX s common stock, which may increase the value of the EPIX common stock that Predix stockholders will receive upon the consummation of the merger and, in particular, possibly result in the holders of Predix common stock and preferred stock receiving significantly more consideration in the merger;

the inability of EPIX s stockholders to realize the long-term value of the successful execution of EPIX s current strategy as an independent company;

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the possible loss of key management, technical or other personnel of either of the combining companies as a result of the management and other changes that will be implemented in integrating the businesses;

the risk of diverting management s attention from other strategic priorities to implement merger integration efforts;

the risk that the merger may not be completed, and that a more limited range of alternative strategic transactions would be available to EPIX in that event;

the substantial charges expected to be incurred in connection with the merger, including transaction fees and expenses arising from or in connection with the merger; and

various other applicable risks associated with the combined company and the merger, including those described under the section entitled Risk Factors elsewhere in this joint proxy statement/ prospectus.

The EPIX board of directors weighed the benefits, advantages and opportunities of a potential transaction against the negative factors described above, including the possible diversion of management attention for an extended period of time. The EPIX board of directors realized that there can be no assurance about future results, including results expected or considered in the factors listed above. However, the EPIX board of directors concluded that the potential benefits outweighed the potential risks of completing the merger.

After consideration of the foregoing factors, among others, the EPIX board of directors has unanimously approved the merger agreement, the merger and the issuance of EPIX common stock as a result thereof and recommends approval of the issuance of the shares of EPIX common stock in the merger, the merger and the approval of the amendment to EPIX s restated certificate of incorporation by the shareholders of EPIX.

In reaching its decision, the EPIX board of directors consulted with EPIX s management with respect to strategic and operational matters and with EPIX s legal counsel with respect to the merger agreement and the transactions contemplated thereby. The EPIX board of directors also consulted with Chestnut Securities and Needham & Company, LLC with respect to the financial aspects of the merger.

The preceding discussion of the reasons for the EPIX board of directors recommendation is not intended to be exhaustive, but does set forth all material factors considered by the EPIX board of directors in reaching its recommendation. The EPIX board of directors did not quantify or otherwise assign relative weights to the specific factors considered while determining its recommendation. In addition, individual members of the EPIX board of directors may have given different weights to different factors.

Recommendation of EPIX s Board of Directors

After careful consideration, the EPIX board of directors unanimously approved the merger agreement and the merger and determined that the merger and the merger agreement are advisable, and in the best interests of, the stockholders of EPIX. Therefore, the EPIX board of directors recommends EPIX stockholders vote **FOR** the issuance of the shares of EPIX common stock in the merger, the approval of the merger, the approval of the amendment to EPIX s restated certificate of incorporation and the authorization of the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect a reverse stock split.

In considering the recommendation of the EPIX board of directors with respect to the issuance of the shares of EPIX common stock in the merger, the merger and the approval of the amendment to EPIX s restated certificate of incorporation, you should be aware that directors and executive officers of EPIX may have interests in the merger that are different from, or are in addition to, the interests of EPIX stockholders. Please see The Merger Interests of EPIX s Directors and Management.

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Opinion of EPIX s Financial Advisor

The board of directors engaged Needham & Company, LLC, or Needham & Company, to render a fairness opinion with respect to the merger. At a meeting of the EPIX board of directors on March 30, 2006, Needham & Company delivered its oral opinion, which opinion was subsequently confirmed in writing, to the effect that, as of March 30, 2006, and based upon and subject to the factors, assumptions and limitations set forth in the written opinion and described below, the consideration to be paid by EPIX in the merger to the equity holders of Predix (including the holders of options and warrants) was fair, from a financial point of view, to EPIX and the holders of EPIX common stock.

The amount and form of consideration to be paid in the merger was determined through arm s-length negotiations between EPIX and Predix and not by Needham & Company. Needham & Company was not asked to consider, and the Needham & Company opinion does not address, the underlying business decision of EPIX to engage in the merger, the relative merits of the merger as compared to other business strategies that might exist for EPIX, or the effect of any other transaction in which EPIX might engage.

The complete text of the written opinion of Needham & Company, dated March 30, 2006, which sets forth the assumptions made, matters considered, limitations on and scope of the review undertaken by Needham & Company, is attached to this joint proxy statement/ prospectus as Annex C and is incorporated herein by reference, all as consented to by Needham & Company. You are encouraged to, and should, read the Needham & Company opinion carefully and this summary of the written opinion of Needham & Company is qualified in its entirety by reference to the full text of such opinion. A materially complete discussion of the fairness opinion is set forth in this joint proxy statement/prospectus. The Needham & Company opinion addresses only the fairness, from a financial point of view, to EPIX and to the holders of EPIX common stock of the consideration to be paid by EPIX in the proposed merger to the equity holders of Predix (including the holders of options and warrants). The Needham & Company opinion does not address any other aspect of the merger and does not express an opinion or recommendation to any director, stockholder or other person as to how to vote or act with respect to the merger. No limitations were imposed by the EPIX board of directors with respect to the investigations made or procedures followed by Needham & Company in rendering its opinion.

In arriving at its opinion, Needham & Company reviewed the following:

(a) a draft of the merger agreement dated March 29, 2006 together with the exhibits and schedules thereto;

(b) certain publicly available information concerning EPIX and Predix, including publicly available filings and the websites of EPIX and Predix, and certain other relevant financial and operating data of EPIX and Predix furnished to us by EPIX and Predix;

(c) materials prepared by EPIX concerning the business, operations and prospects of EPIX and Predix and the combined company;

(d) materials prepared by Predix concerning the business, operations and prospects of Predix;

(e) financial forecasts with respect to EPIX, Predix and the combined company prepared by the management of EPIX;

(f) financial forecasts with respect to Predix prepared by the management of Predix;

(g) certain publicly available financial data of companies whose securities are traded in the public markets and that Needham & Company deemed relevant to similar data for EPIX;

(h) the trading history of EPIX common stock; and

(i) the financial terms of certain other business combinations that Needham & Company deemed generally relevant.

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In addition, Needham & Company held discussions with members of management of EPIX and Predix concerning the business, operations and prospects of EPIX, Predix and the combined company, including the potential cost savings and other synergies that may be achieved by the combined company. Needham & Company also performed and/or considered such other studies, analyses, inquiries, correspondence and investigations as it deemed appropriate.

In connection with its review and arriving at its opinion, Needham & Company, with Predix s and EPIX s consent, assumed and relied upon the accuracy and completeness of all financial and other information discussed with or reviewed by Needham & Company for purposes of its opinion and neither attempted to verify independently nor assumed responsibility for verifying such information. With respect to the financial forecasts for EPIX, Predix and the combined company and the prospects of the combined company provided to Needham & Company by Predix and EPIX s managements, Needham & Company assumed, with Predix and EPIX s consent and based upon discussions with Predix s and EPIX s managements, that such forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of such management, at the time of preparation, of the future operating and financial performance of EPIX, Predix and the combined company. Needham & Company relied upon the estimates of EPIX and Predix s managements of the potential cost savings and other synergies, including the amount and timing thereof, that may be achieved as a result of the merger. Needham & Company expressed no opinion with respect to any of such forecasts or estimates or the assumptions on which they were based.

Needham & Company relied on advice of counsel given to EPIX as to all legal matters and advice of independent accountants given to EPIX as to all financial reporting matters, all with respect to EPIX, the merger and the draft merger agreement. Needham & Company did not assume any responsibility for or make or obtain any independent evaluation, appraisal or physical inspection of the assets or liabilities of EPIX or Predix, nor was Needham & Company furnished with these materials. Needham & Company s services to EPIX in connection with the merger were comprised of rendering an opinion of the fairness, from a financial point of view, of the consideration to be paid by EPIX in connection with the merger to the equity holders of Predix (including the holders of options and warrants). Needham & Company s opinion was necessarily based upon economic, monetary and market conditions and other circumstances as they existed and could be evaluated by Needham & Company on the date of its opinion. It should be understood that, although subsequent circumstances and events may affect its opinion, Needham & Company does not have any obligation to update, revise or reaffirm its opinion and Needham & Company expressly disclaims any responsibility to do so.

In rendering its opinion, Needham & Company assumed that the merger would qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and would be consummated upon the terms and subject to the conditions set forth in the merger agreement without material alteration or variation thereof.

The following is a summary of the principal financial analyses Needham & Company performed to arrive at its opinion. Some of the summaries of financial analyses set forth below include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses. Additionally, although the financial metrics of the comparable companies were used for comparison purposes, none of them is directly comparable to Predix.

Stock Trading History

To provide contextual data regarding the timing of EPIX s decision to enter into the merger agreement, Needham & Company reviewed the historical market prices of EPIX common stock at various

points over the 24 months ended March 28, 2006. This review illustrated the correlation between the historical market prices of EPIX common stock and the business and operations of EPIX, and the status of the regulatory approval process for each of EPIX s product candidates during the same period. Needham & Company noted that, over the 24 months ended March 28, 2006, the high and low closing prices of EPIX common stock were $25.99 and $3.53, respectively, with the low occurring on March 28, 2006. From March 28, 2006 to July 13, 2006, the high and low closing prices of EPIX common stock were $4.85 and $2.77, respectively.

Comparable Transactions Analysis

Needham & Company reviewed selected data for Predix and compared this data to corresponding data from a group of 20 selected merger and acquisition transactions, which Needham & Company believed to be comparable to the merger based on a number of factors, including but not limited to the timing of the transaction, whether the companies had therapeutic programs in a similar stage of development and the indication targeted to be addressed. Each of the comparable merger and acquisition transactions involved a transaction announced and completed since January 1, 2003 and a target company that had a therapeutic program that was in a similar stage of development as Predix s therapeutic program. The comparable merger and acquisition transactions reviewed by Needham & Company were:

Xcyte Therapies, Inc. s acquisition of Cyclacel Ltd.

Maxim Pharmaceuticals, Inc s merger with EpiCept Corporation

Corgentech, Inc s merger with AlgoRx Pharmaceuticals, Inc.

Vernalis plc s acquisition of Cita Neuropharmaceuticals, Inc.

Clinical Data, Inc s acquisition of Genaissance Pharmaceuticals, Inc.

Celtic Pharmaceutical Holdings LP s acquisition of Xenova Group plc

Epimmune, Inc s merger with IDM Pharma, Inc.

GlaxoSmithKline, Inc. s acquisition of Corixa Corporation

Cephalon, Inc. s acquisition of Salmedix, Inc.

Johnson & Johnson s acquisition of Peninsula Pharmaceuticals, Inc.

Johnson & Johnson s acquisition of TransForm Pharmaceuticals, Inc.

Aphton Corporation s acquisition of Igeneon AG

VI Technologies, Inc. s merger with Panacos Pharmaceuticals, Inc.

MGI Pharma, Inc s acquisition of Zycos, Inc.

MGI Pharma, Inc s acquisition of Aesgen Pharmaceuticals, Inc.

Amgen Corporation s acquisition of Tularik, Inc.

Pfizer, Inc. s acquisition of Esperion Therapeutics, Inc.

Cell Therapeutics, Inc. s merger with Novuspharma Spa

Allergan, Inc. s acquisition of Oculex Pharmaceuticals, Inc.

OSI Pharmaceuticals, Inc. s acquisition of Cell Pathways, Inc.

Of these 20 transactions reviewed, four had contingent payments.

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The financial and valuation data analyzed as part of this analysis included:

	Low	Median	Mean	High	Predix (At March 28, 2006)
			(In millions)		
Initial Equity Purchase Price	$ 25.2	$ 112.2	$ 260.2	$ 1,675.2	$ 82.2
Enterprise Value(1)	$ 7.2	$ 91.7	$ 240.9	$ 1,486.3	$ 127.8
Enterprise Value(2)	$ 7.2	$ 87.5	$ 233.3	$ 1,486.3	$ 90.0

(1) Includes contingent payment

(2) Does not include contingent payment

This data illustrates that the Predix initial equity purchase price and enterprise value, both with and without the contingent payment, are below the mean from the identified comparable transactions, consistent with the conclusions presented by Needham & Company in its fairness opinion.

Comparable Public Companies Analysis

Needham & Company reviewed selected data, including cash and indebtedness, sufficient to determine the equity and enterprise value of Predix and compared this data to certain publicly available financial, operating and stock market data, including shares outstanding, last publicly reported sale price of common stock, cash and indebtedness, sufficient to determine the equity and enterprise values of selected publicly traded companies that are in the biotechnology industry and have lead therapeutic programs that Needham & Company believes are similar to those of Predix. Needham & Company then analyzed the relevance and comparability of these companies based on various factors, including but not limited to the sizes of the companies and whether the company had a therapeutic program in a similar stage of development. The comparable public companies reviewed by Needham & Company were:

Myriad Genetics, Inc.

Neurochem, Inc.

Nastech Pharmaceutical Company, Inc.

Acadia Pharmaceuticals, Inc.

NeuroSearch A/ S

Cortex Pharmaceuticals, Inc.

Amarin Corporation

Neurogen Corp.

Cypress Bioscience, Inc.

Cytrx Corporation

Corcept Therapeutics, Inc.

Memory Pharmaceuticals Corp.

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The financial and valuation data analyzed as part of this analysis included:

Comparable Public Company Values

	(At March 28, 2006)				Predix
	Low	Median	Mean	High	(At March 28, 2006)
			(In millions)		
Equity Value	$104.8	$206.6	$301.5	$997.8	$ 82.2
Enterprise Value	$ 60.4	$158.2	$233.9	$762.7	$127.8(1)

(1) Includes contingent payment.

For each of these comparable companies, Needham & Company calculated equity value and enterprise value, based on closing stock prices on March 28, 2006.

This data illustrates that both the equity and enterprise value of Predix were below the median and the mean of the identified comparable public companies, consistent with the conclusions presented by Needham & Company in its fairness opinion.

Comparable Biotechnology Initial Public Offerings Analysis

Needham & Company reviewed selected data for Predix and compared this data to certain publicly available financial, operating and stock market data for selected initial public offerings of the stock of companies in the biotechnology industry during the period from January 1, 2005 through March 28, 2006. The comparable biotechnology initial public offerings reviewed were:

Alexza Pharmaceuticals, Inc.

Iomai Corp.

SGX Pharmaceuticals, Inc.

Altus Pharmaceuticals, Inc.

Somaxon Pharmaceuticals, Inc.

CombinatoRx Corporation

Accentia Biopharmaceuticals, Inc.

Coley Pharmaceutical Group, Inc.

Advanced Life Sciences Holdings, Inc.

XenoPort, Inc.

Aspreva Pharmaceuticals Corp.

Threshold Pharmaceuticals, Inc.

Icagen, Inc.

Favrille, Inc.

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The financial and valuation data analyzed as part of this analysis included:

	Comparable IPO Values (At March 28, 2006)				Predix (At March 28, 2006)
	Low	Median	Mean	High	
	(In millions)				
Equity Value	$ 85.2	$ 189.7	$ 203.7	$ 396.8	$ 82.2
Enterprise Value	$ 57.4	$ 106.0	$ 132.4	$ 287.9	$ 127.8(1)

(1) Includes contingent payment.

This data illustrates that both the equity and enterprise value of Predix were below the mean of the identified comparable biotechnology initial public offerings, consistent with the conclusions presented by Needham & Company in its fairness opinion.

An analysis of the above-presented comparison results is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical financial and operating characteristics of the companies involved and other factors that could affect the trading value of such companies.

Although the summary set forth above does not purport to be a complete description of the analyses performed by Needham & Company in connection with the rendering of its opinion, the material analyses performed by Needham & Company in rendering its opinion have been summarized above. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant quantitative and qualitative methods of financial analyses and the application of those methods to the particular circumstances; and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. Needham & Company did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Needham & Company believes, and has advised the EPIX board of directors, that its analyses must be considered as a whole and that selecting portions of its analyses or the factors it considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying its opinion. In its analyses, Needham & Company made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of EPIX and Predix or the combined company. Included in these assumptions were that there would be no material changes in the regulatory and other legal framework in which EPIX and Predix operate, that the market would be accepting of the products being developed by EPIX and Predix, that there would not be a material change in the competitive landscape in which EPIX and Predix operate and that there would be continued general economic stability. These analyses performed by Needham & Company are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable. Additionally, analyses relating to the values of businesses or assets do not purport to be appraisals or necessarily reflect the prices at which businesses or assets may actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty, being based upon numerous factors or events beyond the control of EPIX and Predix or the combined company or their respective advisors. None of EPIX, Predix, the combined company, Needham & Company or any other person assumes responsibility if future results are materially different from those projected. Needham & Company s opinion and its related analyses were only one of many factors considered by the EPIX board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the EPIX board of directors with respect to the fairness of the total consideration payable to the equity holders of Predix (including the holders of options and warrants) in connection with the merger.

Needham & Company and its affiliates in the ordinary course of business have from time to time provided, and in the future may continue to provide, investment banking and financial advisory services to EPIX and have received, and may in the future receive, fees for the rendering of such services. In 2004,

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Needham & Company provided advisory services to EPIX in connection with a convertible debt offering by EPIX and received a fee of $458,380.01 in connection therewith. In August 2005, Needham & Company was paid a $50,000 retainer by EPIX for financial advisory services. A private equity fund, which is an affiliate of Needham & Company, is a stockholder of Predix. In addition, Needham & Company and its affiliates may actively trade the equity securities of EPIX for their own account or for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

Needham & Company received from EPIX a fee of $300,000 in connection with rendering its fairness opinion in this transaction, none of which was contingent upon consummation of the transaction with Predix. In addition to this fee, EPIX will also reimburse Needham & Company for all of its out-of-pocket expenses and EPIX has agreed to indemnify Needham & Company against certain liabilities, including liabilities under federal securities laws, in connection with the delivery of its opinion. The terms of the fee arrangement with Needham & Company, which are customary in transactions of this nature, were negotiated on an arm s-length basis between EPIX and Needham & Company, and the EPIX board of directors was aware of the arrangement, including the fact that a portion of the fee payable to Needham & Company was contingent upon delivery of the fairness opinion.

Needham & Company was selected by the EPIX board of directors to render an opinion to the EPIX board of directors because Needham & Company is a internationally recognized investment banking firm and because, as part of its investment banking business, Needham & Company is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Predix s Reasons for the Merger

In approving and authorizing the merger agreement and the merger, the Predix board of directors considered a number of factors. Although the following discussion sets forth the material factors considered by the Predix board of directors in reaching its determination, it may not include all of the factors considered by the Predix board of directors. In light of the number and wide variety of factors considered in connection with its evaluation of the merger agreement and the merger, the Predix board of directors did not consider it practicable to, and did not attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its determination. The Predix board of directors viewed its position and determinations as being based on all of the information available and the factors presented to and considered by it. In addition, individual directors may have given different weight to different factors.

In reaching its decision, the Predix board of directors consulted with Predix s management with respect to strategic and operational matters and with Predix s legal counsel with respect to the merger agreement and the transactions contemplated thereby. The Predix board of directors also consulted with Lehman Brothers, Predix s financial advisor, with respect to the financial aspects of the merger and reviewed an analysis prepared by Lehman Brothers comparing the merger with potential scenarios for Predix as a going concern on a stand-alone basis.

Among the factors considered by the Predix board of directors in its decision to approve the merger agreement were the following: (a) the judgment, advice and analysis of Predix s senior management with respect to the potential benefits of the merger, including EPIX s available resources, intellectual property and employees, as well as EPIX s liabilities, based in part on the business, technical, financial, accounting and legal due diligence investigations performed with respect to EPIX; (b) historical and current information concerning Predix s business, including its financial performance and condition, operations, management and competitive position, current industry and economic conditions, and Predix s prospects if it was to remain an independent company, including: (i) the risk of adverse outcomes in its clinical trials; and (ii) and its need to obtain additional financing and the likely terms on which it would be able to

obtain that financing; (c) the current conditions of the equity markets, as it relates to Predix s ability to raise additional capital from new investors for the continued growth of Predix s business, and as it relates to the potential prospects for the combined company; (d) the current conditions in the pharmaceutical and biotechnology marketplace and the positioning of EPIX within that market after the merger; (e) the status of EPIX s imaging product candidates and of Predix s drug candidates; and (f) the terms of the merger agreement, including the merger consideration and milestone payment, as well as the parties representations, warranties and covenants and the conditions to their respective obligations.

In reaching its determination to approve the merger agreement and the merger, the members of the Predix board of directors identified and considered a number of the potential benefits of the merger, including the following:

- the expectation that the merger will be treated as a tax-free reorganization for U.S. federal income tax purposes;
- the relative percentage ownership of EPIX stockholders and Predix stockholders in the combined company that is fixed;
- the skills and abilities of the anticipated post-merger management team;
- given Predix s prospects as a stand-alone entity, it would be difficult for Predix to raise capital at an attractive valuation to fund its current business plan, and any such financing could, therefore, be highly dilutive to Predix s stockholders;
- that the merger will provide Predix stockholders with shares of EPIX common stock, a publicly traded company, which would provide Predix stockholders with the possibility of liquidity;
- the range of options available to the combined organization to access private and public equity markets to fund future capital needs, which would likely be greater than the options available to Predix alone;
- the contribution of EPIX s cash, intellectual property and other assets to a combined company, which could help accelerate Predix s development plans and Predix s ability to generate products while also preserving the accumulated value in Predix s product candidates and research platform;
- the status of EPIX s product candidates, and the prospect that they may provide additional sources of revenue sooner than many of Predix s product candidates; and
- the conclusion of Predix s board of directors that the $4.5 million termination fee, and the circumstances when such fee may be payable, were reasonable.

The members of the Predix board of directors also identified and considered a number of uncertainties and risks, including the following:

- the risk that the potential benefits of the merger might not be realized;
- the price volatility of EPIX s common stock, which may reduce the value of the EPIX common stock that Predix stockholders will receive upon the consummation of the merger and, in particular, possibly result in the holders of Predix common stock and preferred stock receiving significantly less consideration in the merger;
- the risk that the $35 million milestone payment may not be triggered, thereby significantly decreasing the value of the merger to holders of Predix stock, option and warrants;
- the inability of Predix s stockholders to realize the long-term value of the successful execution of Predix s current strategy as an independent company;

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the possible loss of key management, technical or other personnel of either of the combining companies as a result of the management and other changes that will be implemented in integrating the businesses;

the risk of diverting management s attention from other strategic priorities to implement merger integration efforts;

the risk that the merger may not be completed, and that a more limited range of alternative strategic transactions would be available to Predix in that event;

the substantial charges expected to be incurred in connection with the merger, including the $2.0 million fee to be paid to Lehman Brothers, the entire amount of which is contingent upon the consummation of the merger, and other transaction fees and expenses arising from or in connection with the merger; and

various other applicable risks associated with the combined company and the merger, including those described under the section entitled Risk Factors elsewhere in this joint proxy statement/ prospectus.

The Predix board of directors weighed the benefits, advantages and opportunities of a potential transaction against the negative factors described above, including the possible diversion of management attention for an extended period of time. The Predix board of directors realized that there can be no assurance about future results, including results expected or considered in the factors listed above. However, the Predix board of directors concluded that the potential benefits significantly outweighed the potential risks of completing the merger.

After taking into account these and other factors, the Predix board of directors approved and authorized the merger agreement and the transactions contemplated thereby, including the merger.

Recommendation of Predix s Board of Directors

After careful consideration, the Predix board of directors approved the merger agreement and the merger and determined that the merger and the merger agreement are advisable to, and in the best interests of, the stockholders of Predix. Therefore, the Predix board of directors recommends Predix stockholders vote **FOR** the approval and adoption of the merger agreement and the approval of the merger.

In considering the recommendation of the Predix board of directors with respect to the merger agreement and the merger, you should be aware that directors and executive officers of Predix may have interests in the merger that are different from, or are in addition to, the interests of Predix stockholders. Please see The Merger Interests of Predix s Directors and Management.

EPIX has obtained the agreement from certain Predix stockholders, representing approximately 40% of the outstanding voting power of Predix s capital stock (on an as-converted to Predix common stock basis), to vote the shares of Predix capital stock beneficially owned by them in favor of the approval and adoption of the merger agreement and the approval of the merger.

Accounting Treatment

EPIX intends to account for the merger as a purchase for accounting purposes. The total estimated purchase price is allocated to the net tangible and intangible assets of the acquired entity based on their estimated fair values as of the completion of the transaction. A final determination of these fair values will include management s consideration of a valuation. This valuation will be based on the actual net tangible and intangible assets of Predix that exist as of the closing date of the merger.

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Material United States Federal Income Tax Consequences of the Merger

The following discussion summarizes the material U.S. federal income tax consequences of the merger that are expected to apply generally to Predix stockholders upon an exchange of their Predix common stock and preferred stock for EPIX common stock in the merger. This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended, or the Code, existing Treasury regulations and current administrative rulings and court decisions, all in effect as of the date thereof and all of which are subject to change. Any change, which may or may not be retroactive, could alter the tax consequences to EPIX, Predix or the Predix stockholders as described in this summary. No attempt has been made to comment on all U.S. federal income tax consequences of the merger that may be relevant to particular holders, including holders who do not hold their shares as capital assets; holders such as dealers in securities; banks; insurance companies; other financial institutions; mutual funds; real estate investment trusts; tax-exempt organizations; investors in pass-through entities; stockholders who are subject to the alternative minimum tax provisions of the Code; stockholders who hold Predix shares as part of a hedge, wash sale, synthetic security, conversion transaction, or other integrated transaction; U.S. holders, as defined below, that have a functional currency other than the U.S. dollar; traders in securities who elect to apply a mark-to-market method of accounting; stockholders who acquired shares of Predix stock pursuant to the exercise of options or otherwise as compensation or through a tax-qualified retirement plan; and certain expatriates or former long-term residents of the United States. Stockholders described in this paragraph are urged to consult their own tax advisors regarding the consequences to them of the merger.

In case of a stockholder that is a partnership, the U.S. federal income tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships that are holders of Predix common stock or preferred stock and partners in such partnerships are urged to consult their own tax advisors regarding the consequences to them of the merger.

In addition, the following discussion does not address the tax consequences of the merger under state, local or non-U.S. tax laws. Furthermore, the following discussion does not address (a) the tax consequences of transactions effectuated before, after or at the same time as the merger, whether or not they are in connection with the merger, including, without limitation, transactions in which shares of Predix common stock or preferred stock are acquired or shares of EPIX common stock are disposed of, (b) the tax consequences to holders of options or warrants issued by Predix which are assumed in connection with the merger or (c) the tax consequences of the receipt of shares of EPIX common stock other than in exchange for shares of Predix common stock and preferred stock pursuant to the merger agreement.

Holders of Predix common stock and preferred stock are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the merger in light of their personal circumstances and the consequences under state, local and non-U.S. tax laws.

For purposes of this discussion:

a U.S. holder is a beneficial owner of Predix common stock or preferred stock, that is (a) an individual citizen or resident of the United States, (b) a corporation or any other entity taxable as a corporation created or organized in or under the laws of the United States or of a state of the United States or the District of Columbia, (c) a trust (i) in respect of which a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) that was in existence on August 20, 1996 and validly elected to continue to be treated as a domestic trust, or (d) an estate that is subject to U.S. federal income tax on its worldwide income from all sources; and

a non-U.S. holder is any individual, corporation, trust or estate which holds common stock or preferred stock of Predix, other than a U.S. holder.

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In the opinion of each of Mintz, Levin, Cohn, Ferris, Glovsky, and Popeo P.C. and Goodwin Procter LLP, counsel for EPIX and Predix, respectively, the merger will constitute a reorganization within the meaning of Section 368(a) of the Code. These tax opinions are subject to certain assumptions and qualifications and will be based in part on the truth and accuracy of certain representations made by EPIX, EPIX Delaware, Inc. and Predix. No ruling from the Internal Revenue Service has been or will be requested in connection with the merger, and Predix stockholders should be aware that the tax opinions discussed in this section are not binding on the Internal Revenue Service, the Internal Revenue Service could adopt a contrary position which could be sustained by a court. The opinions of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo P.C. and Goodwin Procter LLP are conditioned upon, among other things, the receipt by Predix stockholders in the merger, in the aggregate, of EPIX common shares with a value equal to at least 40% of the combined value of the total consideration paid for all Predix shares, taking into account, among other things, the amount of cash paid or deemed paid to Predix stockholders in connection with the merger and cash to be paid to Predix stockholders in lieu of fractional EPIX common shares.

U.S. Holders

If a U.S. holder reports the disposition of its Predix stock in the merger under the installment method, and

if such U.S. holder s basis in the Predix stock exchanged in the merger does not exceed the fair market value of EPIX common stock such holder receives in the merger, such U.S. holder will recognize gain in the amount of cash received (net of interest imputed under the Code) at the time of the milestone payment under the installment method;

if such U.S. holder s basis in the Predix stock exchanged by it exceeds the fair market value of EPIX common stock such holder receives in the merger, such U.S. holder will recognize gain in the amount equal to the excess of cash received (net of interest imputed under the Code) over the excess of the basis in Predix stock over the fair market value of EPIX common stock received in the merger, at the time of the milestone payment under the installment method.

A U.S. holder will be required to include the amount of the gain in such stockholder s gross income for federal income tax purposes for the year in which the holder receives the cash milestone payment attributable to the gain. A U.S. holder will not recognize gain upon receipt of any portion of the milestone payment made in EPIX common stock. A portion of any milestone payment will be treated as taxable interest income, calculated using the applicable federal rate pursuant to the Code. Predix stockholders should be aware that the law in this area is not fully established and each stockholder is advised to consult his, her or its own tax advisors about the tax consequences of the merger to such stockholder.

If a U.S. holder elects to have the installment method not apply to its disposition of its Predix shares in the merger, such U.S. holder will recognize gain, but not loss, for federal income tax purposes in an amount equal to the lesser of (a) the fair value of the milestone obligation such stockholder receives in the merger or (b) the amount, if any, by which the sum of (i) the fair market value of any EPIX common shares such stockholder receives in the merger and (ii) the fair value of the milestone obligation such stockholder receives in the merger, exceeds such stockholder s adjusted tax basis in its shares of Predix stock.

The aggregate basis of the shares of EPIX common stock received by a Predix stockholder in the merger (including any fractional share deemed received) will be: (a) if the stockholder does not elect out of the application of the installment method, the same as the aggregate basis of the shares of Predix stock surrendered in the merger, up to the fair market value of the EPIX common stock received and (b) if the stockholder elects out of the application of the installment method, the same as the aggregate basis of the shares of Predix stock surrendered in exchange therefore, reduced by the fair value of the milestone obligation received in exchange for shares of Predix stock in the merger and increased by the amount of gain recognized in the exchange. The holding period of the shares of EPIX common stock received by a

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Predix stockholder in the merger will include the holding period of the shares of Predix common stock or preferred stock surrendered in exchange therefor. U.S. holder who receives cash in lieu of a fractional share will recognize gain or loss equal to the difference, if any, between such stockholder s basis in the fractional share and the amount of cash received. Such gain or loss will be a long-term capital gain or loss, if the U.S. holder s holding period is greater than one year as of the date of the closing of the merger. For U.S. holders who are individuals, any long-term capital gain generally will be taxed at a premium U.S. federal income tax rate of 15%. The deductibility of capital losses is subject to limitations.

For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares. Gain recognized upon the exchange generally will be capital gain, unless the receipt of the milestone payment by a Predix stockholder has the effect of a distribution of a dividend, in which case the gain will be treated as dividend income to the extent of the stockholder s ratable share of our earnings and profits as calculated for federal income tax purposes. Any recognized capital gain will be long-term capital gain if the stockholder has held the shares of Predix stock for more than one year.

Certain Requirements for Reorganization under Section 368(a)

One of the requirements that must be satisfied for the merger to qualify as a reorganization under Section 368(a) of the Code is the continuity of interest requirement. This requirement will be satisfied if Predix stockholders exchange a substantial portion of the value of their proprietary interest in Predix for proprietary interests in EPIX. In the opinion of Goodwin Procter LLP, the continuity of interest requirement will be satisfied if the value of EPIX common shares received in connection with the merger by Predix stockholders equals or exceeds 40% of the total consideration paid or deemed paid in exchange for all Predix shares, taking into account, among other things, the amount of cash paid or deemed paid to Predix stockholders in connection with the merger and cash to be paid to Predix stockholders in lieu of fractional EPIX common shares.

In addition, for the merger to qualify as a reorganization, EPIX s wholly-owned subsidiary, EPIX Delaware, Inc., must acquire substantially all of the assets of Predix. Specifically, EPIX Delaware, Inc. must acquire at least 70% of the fair value of Predix s gross assets and at least 90% of the fair value of its net assets. All of Predix s pre-merger assets must be taken into account in the calculation. The merger also must satisfy certain other common law requirements for a reorganization : continuity of business enterprise and business purpose.

If the merger is not treated as a reorganization within the meaning of Section 368(a) of the Code, then each U.S. holder will generally will be treated as exchanging its Predix stock in a fully taxable transaction for EPIX common stock and the milestone payment obligation. Further, if the merger is not treated as a reorganization within the meaning of Section 368(a) of the Code, Predix will be subject to tax on the deemed sale of its assets to EPIX with gain or loss for this purpose measured by the difference between Predix s tax basis in its assets and the fair market value of the consideration deemed to be received therefor, or, in other words, the milestone payment and EPIX common shares. This gain or loss would be reported on Predix s final tax return, subject to the effect of any tax carryovers and the effect of its other income or loss for that period, and EPIX Delaware, Inc. would become liable for any such tax liability by virtue of the merger.

U.S. Holders Backup Withholding and Reporting Requirements

A noncorporate Predix stockholder may be subject to backup withholding at a rate of 28% with respect to a milestone payment received by a Predix stockholder. However, backup withholding will not apply to a stockholder who either (a) furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding by completing the substitute Form W-9 that will be included as part of the letter of transmittal, or (b) otherwise proves to EPIX and its exchange agent that

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the stockholder is exempt from backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

Each Predix stockholder that receives EPIX common stock in the merger will be required to file a statement with his, her or its federal income tax return setting forth his, her or its basis in the Predix common stock or preferred stock surrendered and the fair market value of the EPIX common stock and milestone payment received in the merger, and to retain permanent records of these facts relating to the merger.

Non-U.S. Holders

A non-U.S. holder of Predix common stock or preferred stock will not be subject to U.S. federal income or withholding tax on gain with respect to the merger as long as:

such gain is not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States or, if a tax treaty applies, is not attributable to a permanent establishment or fixed place of business maintained by the non-U.S. holder in the United States;

in the case of certain capital gains, the non-U.S. holder either is not considered, for U.S. federal income tax purposes, to be present in the United States for 183 days or more during the taxable year in which the capital gain is recognized or otherwise qualifies for an exemption;

the non-U.S. holder qualifies for an exemption from backup withholding, as discussed below;

Predix is not and has not been a U.S. real property holding corporation at any time within the shorter of the five-year period ending on the date on which the proposed transaction is consummated or such non-U.S. holder s holding period; and

Generally, a corporation is a U.S. real property holding corporation if the fair market value of its U.S. real property interests, as defined in the Code and applicable regulations, equals or exceeds 50% of the aggregate fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. Predix does not believe that it is or has been a U.S. real property holding corporation within the last five years and does not expect to become a U.S. real property holding corporation prior to the date of the closing of the merger.

Non-U.S. Holders Information Reporting and Backup Withholding

The milestone payment to Predix stockholders may be subject to backup withholding at a 28% rate. In order to qualify for an exemption from backup withholding with respect to the milestone payment received in the merger, a non-U.S. holder may be required to provide a taxpayer identification number, certify the non-U.S. holder s foreign status or otherwise establish an applicable exemption. Predix stockholders receiving EPIX common stock may be subject to information reporting.

Appraisal Rights

Under Delaware corporate law, Predix stockholders are entitled to appraisal rights in connection with the merger. Under Delaware corporate law, holders of EPIX common stock are not entitled to appraisal rights in connection with the merger. The text of the relevant provisions of Delaware law are attached to this joint proxy statement/ prospectus as Annex D.

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Federal Securities Laws Consequences

This joint proxy statement/ prospectus does not cover any resales of the EPIX common stock received in the merger, and no person is authorized to make any use of this joint proxy statement/ prospectus in connection with any such resale.

All shares of EPIX common stock received by Predix stockholders in the merger should be freely transferable, except that if a Predix stockholder is deemed to be an affiliate of Predix under the Securities Act of 1933, as amended, at the time of the special meeting, the Predix stockholder may resell those shares only in transactions permitted by Rule 145 under the Securities Act of 1933, as amended, or as otherwise permitted under the Securities Act of 1933, as amended. Persons who may be affiliates of Predix under the Securities Act of 1933, as amended, generally include individuals or entities that control, are controlled by, or are under common control with, Predix, and generally would not include stockholders who are not officers, directors or principal stockholders of Predix. EPIX has agreed to file a registration statement with respect to the shares of EPIX common stock to be issued in the merger to persons who are deemed to be affiliates of Predix. As a result, these shares shall also be freely tradable upon the effectiveness of this registration statement, subject only to certain prospectus delivery requirements and the terms of the lock-up agreements described herein, if applicable.

Interests of EPIX s Directors and Management

EPIX s directors and management have interests in the merger as individuals in addition to, and that may be different from, the interests of EPIX s stockholders. The EPIX board of directors was aware of these interests and considered them, among other matters, in its decision to approve the merger agreement.

Christopher F.O. Gabrieli, Michael Gilman, Ph.D., Mark Leuchtenberger and Gregory D. Phelps, each of whom is a current director of EPIX, is expected to be a member of the EPIX board of directors after the merger.

Although no employment or similar agreements have been entered into as of July 13, 2006, it is anticipated that certain current officers and key employees of EPIX will be executive officers or key employees of EPIX after the merger as specified below:

Name	Position in the Combined Company	Current Position with EPIX
Andrew C.G. Uprichard, M.D.	President	EPIX s President and Chief Operating Officer
Philip Graham, Ph.D.	Vice President of Product Management and Imaging	EPIX s Vice President of Program Management
Brenda Sousa	Vice President of Human Resources	EPIX s Vice President of Human Resources

Upon completion of the merger, Brenda Sousa, Vice President of Human Resources, is entitled to a bonus of $47,500. In addition, Philip Chase, Vice President and General Counsel, is entitled to a bonus of $72,000 upon completion of the merger.

As a result of the foregoing, the directors and executive officers of EPIX may be more likely to vote to approve the merger than EPIX stockholders generally.

Interests of Predix s Directors and Management

Predix s directors and management have interests in the merger as individuals in addition to, and that may be different from, the interests of Predix s stockholders. The Predix board of directors was aware of these interests and considered them, among other matters, in its decision to approve the merger agreement.

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Patrick J. Fortune, Ph.D., Frederick Frank, Michael G. Kauffman, M.D., Ph.D., and Ian F. Smith, CPA, ACA, each of whom is a current director of Predix, is expected to be a member of the EPIX board of directors after the merger. These relationships may have influenced their decision to vote in favor of the merger and to recommend that Predix stockholders vote in favor of the merger and related transactions. In addition, certain of the current executive officers or key employees of Predix are expected to serve as executive officers or key employees of EPIX at the effective time of the merger.

In addition, options, with exercise prices ranging from $0.81 to $2.99, held by each of Michael G. Kauffman, M.D., Ph.D., Silvia Noiman, Ph.D., Oren Becker, Ph.D., Chen Schor and Kimberlee C. Drapkin to purchase 594,679, 308,096, 261,376, 251,213, and 144,996 shares, respectively, will become immediately exercisable in full if, within 12 months after the merger, the officer is terminated without cause or terminates his or her employment due to a material change in duties, authority or responsibilities.

Moreover, Mr. Frank, the Chairman of the Predix board of directors, is also the Vice Chairman and a director of Lehman Brothers Inc., Predix s financial advisor in connection with the merger. Lehman Brothers is entitled to $2.0 million in fees from Predix, the entire amount of which is contingent upon consummation of the merger. In addition, Lehman Brothers is entitled to up to $50,000 in reimbursement of its expenses in connection with the transaction.

Pursuant to the merger agreement, upon the completion of the merger, the combined company will fulfill and honor the obligations of Predix which existed prior to the merger to indemnify Predix s present and former directors, officers and employees. After the completion of the merger, the combined company will, to the fullest extent permitted under law and under its certificate of incorporation, indemnify and hold harmless, each present and former director, officer or employee of Predix in respect of acts or omissions occurring prior to the completion of the merger, including in connection with the merger agreement and the transactions contemplated thereby, to the same extent as provided in Predix s certificate of incorporation, by-laws or any applicable contract or agreement for a period of six years after the completion of the merger.

Certain of the Predix stockholders who have entered into voting agreements with EPIX, agreeing to vote all shares beneficially owned by them in favor of approval and adoption of the merger agreement and approval of the merger, are affiliated with directors of Predix.

As a result of the foregoing, the directors and executive officers of Predix may be more likely to vote to approve the merger than Predix stockholders generally.

The NASDAQ Global Market Listing

EPIX s common stock is currently listed on The NASDAQ Global Market under the symbol EPIX. It is a condition to Predix s obligations to effect the merger that the EPIX common stock issued in the merger shall have been approved for listing on The NASDAQ Global Market as of consummation of the merger. In addition, pursuant to the terms of the merger agreement, EPIX has agreed to use reasonable efforts to obtain approval for listing on The NASDAQ Global Market of the shares of EPIX common stock Predix securityholders will be entitled to receive pursuant to the merger.

Immediately prior to the consummation of the merger, EPIX will be required to meet the initial listing requirements to maintain the listing and continued trading of its shares on The NASDAQ Global Market. EPIX has filed an initial listing application with The NASDAQ Global Market pursuant to the Reverse Merger rules of The NASDAQ Global Market. If such application is accepted, EPIX anticipates that its common stock will continue to be listed on The NASDAQ Global Market following the completion of the merger under its current trading symbol EPIX.

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THE MERGER AGREEMENT

All references to the merger agreement contained throughout this joint proxy statement/ prospectus shall refer to the merger agreement, as amended by amendment no. 1 thereto.

The following summary describes the material provisions of the merger agreement. The full text of the merger agreement is attached as Annex A to this joint proxy statement/ prospectus and is incorporated herein by reference. This summary may not contain all of the information that is important to you, and you are encouraged to read carefully the entire merger agreement. The following description is subject to, and is qualified in its entirety by reference to, the merger agreement.

The merger agreement is described herein, and included as Annex A hereto, only to provide you with information regarding its terms and conditions, and not to provide any other factual information regarding EPIX, Predix or their respective businesses. Accordingly, the representations and warranties and other provisions of the merger agreement should not be read alone, and you should read the information provided elsewhere in this document and in the other public filings EPIX makes with the Securities and Exchange Commission, which are available without charge at www.sec.gov, for information regarding EPIX and Predix and their respective businesses. The representations and warranties described below and included in the merger agreement were made by each of EPIX, together with EPIX Delaware, Inc., and Predix to the other. These representations and warranties were made as of specific dates and may be subject to important qualifications, limitations and supplemental information agreed to by EPIX and Predix in connection with negotiating the terms of the merger agreement. In addition, the representations and warranties may have been included in the merger agreement for the purpose of allocating risk between EPIX and Predix rather than to establish matters as facts.

Structure of the Merger

At the effective time of the merger, Predix will merge with and into EPIX s wholly-owned subsidiary, EPIX Delaware, Inc. Upon completion of the merger, EPIX Delaware, Inc. will be the surviving corporation and a wholly-owned subsidiary of EPIX.

Effective Time of the Transaction

The closing of the transaction contemplated by the merger agreement will occur no later than the second business day after the last of the conditions to the transaction have been satisfied or waived, or at another time as EPIX and Predix may agree. Contemporaneously with, or as soon as practicable after the closing, EPIX and Predix will file a certificate of merger with the Secretary of State of the State of Delaware. The transaction will become effective upon the filing of this certificate.

Officers and Directors

At the effective time, the officers of EPIX Delaware, Inc. shall be the officers of the surviving corporation, subject to change thereafter, and the directors of EPIX Delaware, Inc. will be the directors of the surviving corporation.

Conversion of Predix Shares

Each share of Predix common stock and preferred stock (on an as-converted to Predix common stock basis) issued and outstanding immediately prior to the effective time of the merger will be automatically converted into the right to receive a number of shares of common stock of EPIX equal to the exchange ratio and cash in lieu of fractional shares.

The Exchange Ratio and Milestone Payment

On the date of the merger agreement, every share of Predix common stock and preferred stock (on an as-converted to Predix common stock basis) issued and outstanding immediately prior to the effective time would have been converted into the right to receive 1.248509 shares of validly issued, fully paid and

nonassessable EPIX common stock. As a result of the cancellation of some previously outstanding Predix options and the grant of additional options by Predix since the date of the merger agreement, the initial exchange ratio of 1.248509 has been automatically adjusted under the merger agreement to 1.239411, which is subject to further adjustment to account for the reverse stock split if implemented. If EPIX or Predix issues additional equity securities before the effective time, the exchange ratio shall be further adjusted to reflect fully the effect of the issuance of any such equity securities. In addition, the exchange ratio shall be adjusted to reflect fully the effect of any stock split, reverse split, stock dividend (including any dividend or distribution of securities convertible into EPIX common stock), reorganization, recapitalization or other like change with respect to EPIX common stock occurring after the date of the merger agreement and prior to the effective time of the merger. In approving the merger agreement, the holders of Predix preferred stock will be agreeing to accept the merger consideration as set forth in the merger agreement in lieu of any liquidation preferences that they would be entitled to under the Predix restated certificate of incorporation, as amended, prior to the consummation of the merger.

In addition, EPIX will make a milestone payment to Predix stockholders, option holders and warrant holders in the amount of $35 million upon the occurrence of certain events. EPIX may elect to make the milestone payment in cash or shares of EPIX common stock, or any combination thereof; provided, that the milestone payment made to holders of an option or warrant to purchase Predix common stock or Predix preferred stock shall be made solely in cash. The milestone payment will be allocated and paid to each Predix holder of record of Predix shares, options or warrants that they hold at the effective time of the merger, in each case, pro rata based upon the percentage of the initial merger consideration that such holder would have received at the effective time of the merger and assuming that, for the purpose of the milestone payment only, that each Predix warrant and option to purchase Predix shares (whether or not vested) was exercised in full immediately prior to the effective time of the merger. In no event will the shares of EPIX common stock issuable at the effective time of the merger, including the shares of EPIX common stock issuable upon exercise of Predix options and warrants assumed by EPIX in the merger, exceed 49.99% of the outstanding EPIX common stock immediately after the effective time of the merger.

Predix stockholders, option holders and warrant holders will receive the milestone payment within 90 days following the occurrence, as determined by the non-Predix members of the combined company s board of directors, of any of the following events between the date of this joint proxy statement/ prospectus and June 30, 2008:

- receipt of statistically significant final results from a randomized, placebo- or active comparator-controlled, double-blinded Phase II or Phase III clinical trial of:
  - PRX-00023 for the treatment of generalized anxiety disorder, depression, attention-deficit hyperactivity disorder or other neuropsychiatric disorder with at least 100 patients;
  - PRX-03140 for the treatment of Alzheimer s disease or other cognitive disorders with at least 60 patients;
  - PRX-08066 for the treatment of pulmonary artery hypertension, chronic obstructive pulmonary disease or a different indication as selected by Predix or, after the effective time, by the non-Predix members of the combined company s board of directors, with at least 60 patients;
  - PRX-07034 for the treatment of obesity, cognitive disorders or a different indication as selected by Predix or, after the effective time, by the non-Predix members of the combined company s board of directors, with at least 60 patients; or
- entering into a strategic partnership for any Predix drug candidate, which provides milestone and research funding payments of more than $50 million, of which $20 million must be received by June 30, 2008 in unrestricted cash through non-refundable license fees, research funding payments and/or premiums paid in connection with an equity investment by the strategic partner within 60 days following entry into the strategic partnership.

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The milestone payment will be paid within 90 days after the achievement of a milestone event, at the option of the non-Predix members of the combined company s board of directors, either:

- in cash, shares of EPIX common stock or any combination thereof with the number of such shares to be issued determined based on the five-day average closing price of EPIX common stock on The NASDAQ National Market ending on the trading day that is ten days prior to the payment date; or

- $20 million payable in accordance with paragraph (a) above and $15 million payable on the date that is 12 months after the payment of the initial $20 million in shares of EPIX common stock, with the number of such shares to be issued determined based on 75% of the 30-day average closing price of EPIX common stock on The NASDAQ National Market ending on the trading day that is ten days prior to the payment date. If, as a result of the 49.99% limitation described below, the entire $15 million payment cannot be made in shares of EPIX common stock, the balance will be paid in cash plus interest calculated from the milestone payment date at the rate of 10% per year.

In no event may the milestone be paid in shares of EPIX common stock to the extent that such shares would exceed 49.99% of the outstanding shares of EPIX common stock immediately after such milestone payment, when combined with all shares of EPIX common stock issued in the merger and upon exercise of all Predix options and warrants assumed by EPIX in the merger. As a result of this limitation, if the milestone payment is triggered before EPIX issues a significant number of new shares of its capital stock or before consummation of the merger, all or a substantial portion of the milestone payment will be paid in cash. Additionally, the milestone will be paid in cash to holders of Predix options and warrants assumed by EPIX in the merger.

Stock Options and Warrants

At the effective time of the merger, all options to purchase Predix common stock then outstanding under Predix s Amended and Restated 2003 Stock Incentive Plan and the Physiome Sciences, Inc. 1997 Stock Option Plan shall be assumed by EPIX.

At the effective time of the merger, all warrants to purchase Predix common stock or preferred stock then outstanding shall be assumed by EPIX.

Fractional Shares

No fractional shares of EPIX common stock will be issued in the merger. Instead, each holder of Predix common stock and preferred stock otherwise entitled to receive a fraction of a share of EPIX common stock shall receive from EPIX an amount of cash (rounded to the nearest whole cent), without interest, determined by multiplying that fraction by the average of the closing sale prices of EPIX common stock on The NASDAQ National Market on the five trading days ending on the trading day prior to the effective time of the merger.

Surrender of Predix Certificates

Following the effective time of the merger, the exchange agent, selected by EPIX, will mail to each holder of Predix common stock and preferred stock a letter of transmittal and instructions regarding the details of the exchange. The holders will use the letter of transmittal to exchange Predix stock certificates for the shares of EPIX common stock and cash in lieu of fractional shares of EPIX common stock to which the holders of Predix common and preferred stock are entitled to receive in connection with the merger.

After the effective time of the merger and until so surrendered, outstanding Predix certificates will be deemed to be evidence of the right to receive EPIX common stock, the right to receive an amount of cash in lieu of the issuance of any fractional shares and the right to receive the milestone payment to which the record holders of Predix common stock and preferred stock are entitled to receive in connection with the

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merger. No interest will be payable on cash distributed to Predix stockholders in lieu of any fractional shares of EPIX common stock.

United States Tax Consequences

It is intended by both EPIX and Predix that the merger shall constitute a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended, or the Code.

Representations and Warranties

The merger agreement contains customary representations and warranties of EPIX, together with EPIX Delaware, Inc. and Predix made to, and solely for the benefit of, each other. The representations and warranties expire at the effective time of the merger. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that EPIX and Predix have exchanged in connection with signing the merger agreement. While EPIX and Predix do not believe that these disclosures schedules contain information securities laws require the parties to publicly disclose other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they were only made as of the date of the merger agreement and are modified in important part by the underlying disclosure schedules. These disclosure schedules contain information that has been included in the companies general prior public disclosures, as well as additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in the companies public disclosures.

Conduct of Business Prior to the Completion of the Merger

Under the terms of the merger agreement, EPIX and Predix have agreed that until the earlier of the termination of the merger agreement or the effective time of the merger, subject to certain exceptions, each company will carry on its business in the ordinary course, in substantially the same manner as previously conducted. In addition, except as required by law and subject to certain exceptions, each company has agreed to additional restrictions that prohibit it from:

changing its certificate of incorporation or by-laws, or otherwise altering its corporate structure;

selling, pledging, disposing of or encumbering any assets except for in the ordinary course of business;

issuing, disposing of or encumbering any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock, or any other ownership interest except pursuant to stock options or warrants outstanding on the date of the merger agreement;

accelerating, amending or changing the period of exercisability of options granted under any stock plans or warrants, as the case may be, or authorizing cash payments in exchange for any options or warrants;

declaring, setting aside, or paying any dividend or other distribution in respect of any of its capital stock;

splitting, combining, or reclassifying any of its capital stock or issuing or authorizing or proposing the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock;

amending the terms of, repurchasing, redeeming or otherwise acquiring, any of its securities;

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selling, transferring, licensing, sublicensing or otherwise disposing of any intellectual property, or amending or modifying any existing agreements with respect to any intellectual property;

acquiring (by merger, consolidation, or acquisition of stock or assets or otherwise) any corporation, partnership or other business organization or division thereof;

incurring any indebtedness for borrowed money or assuming, guaranteeing or endorsing or becoming responsible for the obligations of any person;

making any loans or advances in excess of $100,000 except in the ordinary course of business consistent with past practice;

entering into or amending any material contract or agreement other than in the ordinary course of business;

authorizing any capital expenditures or purchase of fixed assets which are, in the aggregate, in excess of $100,000, taken as a whole;

increasing the compensation payable or to become payable to its officers, employees or consultants, except for increases in salary or wages of employees who are not officers in accordance with past practices, or granting any severance or termination pay to, or entering into any employment or severance agreement with, any director, officer (except for officers who are terminated on an involuntary basis) or other employee, or establishing, adopting, entering into or amending any employee benefit plan, provided, that each may provide their officers and employees retention bonuses to retain such officer s or employee s services through the effective time of the merger, valued at not more than 20% of such officer s or employee s yearly base salary as of the date of the merger agreement, payable in cash, stock or an option to purchase stock that becomes payable or vests on or after the effective time of the merger, if each party has notified the other party in writing at least five business days prior to granting any such retention bonus and included in such notification is a description of the circumstances giving rise to such retention bonus, provided, further, that the aggregate value of all retention bonuses granted by each shall not exceed $350,000;

taking any action, other than as required by generally accepted accounting principals, to change accounting policies or procedures;

making any material tax election inconsistent with past practices or settling or compromising any material federal, state, local or foreign tax liability or agree to an extension of a statute of limitations for any assessment of any tax;

paying, discharging or satisfying any claims, liabilities or obligations, other than in the ordinary course of business and consistent with past practice;

entering into any material partnership arrangements, joint development agreements, strategic alliances or collaborations;

except as may be required by law, taking any action to terminate or amend any employee plans other than in connection with the merger; or

taking any action which would make any of the representations or warranties of either party contained in the merger agreement to be untrue or incorrect or prevent either party from performing, or cause either party not to perform, its covenants thereunder or result in any of the conditions to the merger not being satisfied.

No Solicitation

Both parties have agreed, subject to limitations described below, that neither Predix and its subsidiaries nor EPIX will directly or indirectly through any officer, director, employee, representative or

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agent, without the prior written consent of both parties solicit, encourage or have negotiations with respect to (including by way of furnishing information) the initiation or submission of any inquiries, proposals or offers regarding any acquisition, merger, take-over bid, sale of substantial assets, sale of shares of capital stock (including without limitation by way of a tender offer) or similar transactions involving either party, or an Acquisition Proposal; provided, however, that prior to the adoption of the merger agreement and the approval of the merger by the stockholders of Predix or EPIX, as applicable, Predix and EPIX may furnish nonpublic information regarding such party to any third party in response to a superior offer that is submitted to such party by such third party (and not withdrawn) if: (a) such party shall not have breached the no solicitation provisions of the merger agreement; (b) the board of directors of such party concludes in good faith based on the advice of outside legal counsel, that (i) the failure to take such action would be inconsistent with the fiduciary duties of the EPIX board of directors under applicable law, with respect to EPIX and (ii) taking such action would be required in order to comply with the fiduciary duties of the Predix board of directors under applicable law, with respect to Predix and; (c) such party complies with the provisions of the merger agreement; and (d) such party receives from such third party an executed confidentiality agreement containing provisions at least as favorable to such party as those contained in the confidentiality agreement dated October 28, 2005 between EPIX and Predix.

EPIX and Predix have further agreed (a) that both parties shall immediately notify the other party after receipt of any Acquisition Proposal or any request for nonpublic information relating to either party in connection with an Acquisition Proposal or for access to the properties, books or records of either entity by any person or entity that informs the board of directors of that party that it is considering making, or has made, an Acquisition Proposal. Such notice to either party shall be made orally and in writing and shall indicate in reasonable detail the identity of the offeror and the terms and conditions of such proposal, inquiry or contact, (b) both parties shall immediately cease and cause to be terminated any existing discussions or negotiations with any parties (other than each other) conducted with respect to any acquisition, merger, take-over bid, sale of substantial assets, sale of shares of capital stock (including without limitation by way of a tender offer) or similar transactions involving either party. Both parties agree that it will not release any third party from any confidentiality or standstill agreement to which either is a party and (c) both parties shall ensure that the officers, directors and employees of each and any investment banker or other advisor or representative retained by either party are aware of these restrictions, and shall be responsible for any breach of these restrictions by such officers, directors, employees, bankers, advisors and representatives.

Additional Agreements

Under the terms of the merger agreement EPIX and Predix have each agreed:

to file, as promptly as practicable after execution of the merger agreement, this joint proxy statement/ prospectus with the Securities and Exchange Commission, and that EPIX will prepare and file the registration statement in which the joint proxy statement/ prospectus is included;

to cooperate with each other in the preparation and filing of the joint proxy statement/ prospectus; and

to promptly notify one another of any comments from the Securities and Exchange Commission with respect to the joint proxy statement/ prospectus.

In addition, EPIX and Predix have agreed:

to mail the joint proxy statement/ prospectus to their respective stockholders at the earliest practicable time after the registration statement is declared effective by the Securities and Exchange Commission;

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to promptly take all steps necessary to hold and convene their respective stockholders meeting, and use commercially reasonable efforts to solicit from their respective stockholders proxies in favor of the adoption of the merger agreement and the approval of the merger; and

that their respective boards of directors shall recommend the adoption of the merger agreement and the approval of the merger to their respective stockholders, and, except in certain circumstances, neither the board of directors of EPIX or Predix shall withdraw, amend or modify the recommendation.

Continuing Obligation to Convene Stockholders Meeting

Notwithstanding anything to the contrary contained in the merger agreement, both parties will remain obligated to call, give notice of, convene and hold their respective stockholders meeting which shall not be limited or affected by the commencement, disclosure, announcement or submission to either party of any superior offer.

Confidentiality

Upon reasonable notice and subject to restrictions contained in confidentiality agreements to which such party is subject, Predix and EPIX shall each afford to the officers, employees, accountants, counsel and other representatives of the other, reasonable access, during the period prior to the effective time, to all of its and its subsidiaries properties, books, contracts, commitments and records and, during such period, Predix and EPIX each shall furnish promptly to the other all information concerning its and its subsidiaries business, properties and personnel as such other party may reasonably request, and each shall make available to the other the appropriate individuals (including attorneys, accountants and other professionals) for discussion of the other s business, properties and personnel as either party may reasonably request. Each party shall keep such information confidential in accordance with the terms of the confidentiality agreement dated October 28, 2005 between EPIX and Predix.

Regulatory Filings

Predix, EPIX and EPIX Delaware, Inc. shall coordinate and cooperate with one another and shall use all commercially reasonable efforts to comply with all legal requirements and make all filings required by any governmental entity in connection with the merger and related transactions contemplated by the merger. Predix and EPIX shall prepare and file, if any, (a) the notification, report and any forms required to be filed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, and (b) as promptly as practicable thereafter respond in compliance with any inquiries or requests received from the Federal Trade Commission, the Department of Justice or from any state attorney general, foreign antitrust or competition authority or other governmental authority in connection with antitrust or competition matters. Predix and EPIX will notify the other promptly upon the receipt of any comments, responses or requests from any governmental entity or official in connection with any filings made pursuant to the merger agreement and the merger.

Notification of Certain Matters

Predix shall give prompt notice to EPIX, and EPIX shall give prompt notice to Predix, of (a) the occurrence, or non-occurrence, of any event the occurrence, or non-occurrence, of which would be likely to cause any representation or warranty contained in the merger agreement to be materially untrue or inaccurate, and (b) any failure of Predix or EPIX, as the case may be, materially to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it thereunder; provided, however, that the delivery of any notice pursuant to the merger agreement shall not limit or otherwise affect the remedies available thereunder to the party receiving such notice; and provided, further, that

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failure to give such notice shall not be treated as a breach of covenant for the purposes of the merger agreement unless the failure to give such notice results in material prejudice to the other party.

Each of Predix and EPIX shall give prompt notice to the other of (a) any notice or other communication from any person alleging that the consent of such person is or may be required in connection with the merger or other transactions contemplated by the merger agreement; (b) any notice or other communication from any governmental authority in connection with the merger or other transactions contemplated by the merger agreement; (c) any litigation relating to or involving or otherwise affecting Predix, its subsidiaries or EPIX that relates to the merger or other transactions contemplated by the merger agreement; (d) the occurrence of a default or event that, with notice or lapse of time or both, is reasonably likely to become a default under a Predix contract; and (e) any change that would be considered reasonably likely to result in a material adverse effect, or is likely to impair in any material respect the ability of either Predix or EPIX to consummate the transactions contemplated by the merger agreement.

Indemnification

From and after the merger, EPIX Delaware, Inc., as the surviving corporation, will fulfill and honor in all respects the obligations of Predix which exist prior to the date thereof to indemnify Predix s present and former directors, officers, employees and their heirs, executors and assigns. The certificate of incorporation and by-laws of EPIX Delaware, Inc. will contain provisions with respect to indemnification and elimination of liability for monetary damages set forth in Predix s restated certificate of incorporation, as amended, and by-laws on the date of the merger agreement, which provisions will not be amended, repealed or otherwise modified for a period of six years from the merger in any manner that would adversely affect the rights thereunder of individuals who, at the time of the merger, were directors, officers, employees or agents of Predix, unless such modification is required by law and then only to the minimum extent required by such law.

Predix shall use commercially reasonable efforts, after consultation with EPIX, to negotiate and secure a tail on its existing directors, officers and company liability insurance policies for a period of six years, at a total cost not to exceed $25,000 per year of coverage, which cost shall be paid by EPIX.

Listing of EPIX Common Stock

EPIX shall use its reasonable best efforts to cause the shares of EPIX common stock to be issued in the merger to be approved for listing on The NASDAQ National Market prior to the effective time of the merger.

Public Announcements

EPIX and Predix shall consult with each other before issuing any press release or otherwise making any public statements with respect to the merger and shall not issue any such press release or make any such public statement without the prior consent of the other parties, which shall not be unreasonably withheld or delayed; provided, however, that, on the advice of legal counsel, EPIX may comply with any Securities and Exchange Commission requirements under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, which requires any public disclosure, without the consent of Predix.

Taxes

EPIX and Predix shall cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp taxes, any transfer, recording, registration and other fees, and any similar

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taxes which become payable in connection with the transactions contemplated by the merger agreement that are required or permitted to be filed on or before the effective time of the merger. EPIX shall pay all such taxes and fees.

Severance Payments

If at any time between the effective time of the merger and the 12-month anniversary of the effective time of the merger, EPIX, the surviving corporation or its subsidiaries causes any full-time employee of EPIX, Predix or its subsidiaries as of the date of the merger agreement and the effective time of the merger, other than Philip Chase, Mia Moore and Sheila DeWitt, Ph.D., to be terminated for any reason other than cause or to resign as a result of a substantial diminution of salary, such employee shall be entitled to, among other things, severance payments ranging from three months to 15 months of their base salary from EPIX, EPIX Delaware, Inc. or their subsidiaries, as the case may be, all as set forth in the merger agreement. To the extent such an employee has an individual agreement providing for severance, such employee may choose to receive the benefits under their individual agreement or as set forth in the merger agreement.

EPIX Board of Directors

The EPIX board of directors shall cause the EPIX board of directors, immediately after the effective time, to consist of no more than nine persons, and, with respect to such board of directors: (a) to appoint four Predix nominees, which shall include Frederick Frank, Michael G. Kauffman, M.D., Ph.D., Patrick J. Fortune, Ph.D. and Ian F. Smith, CPA, ACA, (b) to appoint five EPIX nominees, which may include EPIX s directors immediately prior to the effective time of the merger. In addition, EPIX shall cause the Chief Executive Officer of Predix immediately prior to the effective time of the merger to be the Chief Executive Officer of EPIX immediately after the effective time of the merger pursuant to an employment agreement upon mutually agreeable terms and conditions.

Treatment as Reorganization

Predix, EPIX and EPIX Delaware, Inc. will not take any action prior to or after the effective time of the merger that would reasonably be expected to cause the merger to fail to qualify as a reorganization with the meaning of Section 368(a) of the Code.

Conditions to the Completion of the Merger

Conditions to Obligations of Each Party

The obligations of EPIX and Predix to effect the transaction are subject to the satisfaction or waiver of various conditions, which include the following:

the registration statement relating to the shares of EPIX common stock to be issued in connection with the merger, of which this joint proxy statement/ prospectus is a part, shall have been declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended, and no stop order suspending the effectiveness of the registration statement shall have been issued by the Securities and Exchange Commission nor shall such proceeding have been initiated or, to the knowledge of EPIX and Predix, threatened by the Securities and Exchange Commission;

all approvals of, declarations or filings, with any governmental authority necessary for the consummation of the merger, if any, shall have been obtained or made, including the expiration or termination of the waiting period (and any extension thereof) under the HSR Act, if required;

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the merger agreement shall have been adopted by the requisite vote of the stockholders of EPIX and Predix, respectively, in accordance with General Corporation Law of the State of Delaware and EPIX s and Predix s respective certificates of incorporation and by-laws; and the issuance of shares of EPIX common stock by virtue of the merger shall have been approved by the requisite vote of the stockholders of EPIX under the rules of the Securities and Exchange Commission and the National Association of Securities Dealers, Inc.;

no order (whether temporary, preliminary or permanent) issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the merger shall be in effect, nor shall any proceeding brought by any governmental authority seeking any of the foregoing be pending;

EPIX and Predix shall have received the written opinion of Goodwin Procter LLP and Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., respectively, to the effect that the merger will constitute a reorganization within the meaning of Section 368 of the Code; and

no injunction, or final, non-appealable judgment, decree or order issued by any court of competent jurisdiction shall be in effect which would result in the acceleration of payment of the amounts outstanding under that certain Indenture, dated as of June 7, 2004, between EPIX and U.S. Bank National Association, as trustee, or any notes issued thereunder.

Additional Conditions to the Obligations of EPIX

The obligations of EPIX to effect the merger shall be subject to the satisfaction at or prior to the effective time of the merger of each of the following conditions:

the representations and warranties of Predix contained in the merger agreement shall be true and correct in all respects on and as of the effective time;

Predix shall have performed or complied with all agreements and covenants required by the merger agreement to be performed or complied with by it on or prior to the effective time of the merger;

there shall not have been instituted, pending or threatened any action or proceeding by any governmental authority, nor shall there be in effect any judgment, decree or order of any governmental authority, in either case, seeking to prohibit or limit EPIX from exercising all material rights and privileges pertaining to its ownership of the surviving corporation;

there shall have been no change, occurrence or circumstance in the business, results of operations or financial condition of Predix or any subsidiary of Predix having or reasonably likely to have, individually or in the aggregate, a material adverse effect on Predix;

EPIX shall have received from each affiliate of Predix, the affiliate agreements, described elsewhere in this joint proxy statement/ prospectus, and such agreement shall be in full force and effect;

Predix shall have received all consents and approvals required to consummate the merger under Predix s and its subsidiaries agreements listed in the merger agreement;

stockholders of Predix holding an aggregate of approximately 40% of the voting shares of Predix shall have entered into voting agreements, described elsewhere in this joint proxy statement/ prospectus, and such agreements shall be in full force and effect; and

EPIX shall have received from Goodwin Procter LLP, counsel to Predix, an opinion, addressed to EPIX dated as of the effective date of the merger.

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Additional Conditions to the Obligations of Predix

The obligations of Predix to effect the merger shall be subject to the satisfaction at or prior to the effective time of the merger of each of the following conditions:

the representations and warranties of EPIX contained in the merger agreement shall be true and correct in all respects on and as of the effective time;

EPIX shall have performed or complied with all agreements and covenants required by the merger agreement to be performed or complied with by it on or prior to the effective time of the merger;

there shall not have been instituted, pending or threatened any action or proceeding (or any investigation or other inquiry that might result in such an action or proceeding) by any governmental authority, nor shall there be in effect any judgment, decree or order of any governmental authority, in either case, seeking to prohibit or limit Predix from exercising all material rights and privileges pertaining to its ownership of the surviving corporation;

there shall have been no change, occurrence or circumstance in the business, results of operations or financial condition of EPIX having or reasonably likely to have, individually or in the aggregate, a material adverse effect on EPIX;

the EPIX common stock shall be listed on The NASDAQ National Market as of and from the date of the merger agreement through the consummation of the merger and the shares of EPIX common stock issued in the merger shall have been approved for listing on The NASDAQ National Market as of the consummation of the merger;

Predix shall have received from Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., counsel to EPIX, an opinion, addressed to Predix dated as of the effective date of the merger;

the sum of EPIX s cash, cash equivalents, restricted cash and securities available for sale at the effective time of the merger less the aggregate amount of any and all liabilities and obligations associated with (a) severance or similar obligations of EPIX as of the effective time; (b) fees payable to any financial advisor to EPIX; (c) fees owed or payable to EPIX s independent public accountants; (d) bonus payments to employees upon consummation of the merger; and (e) legal fees of EPIX in connection with the negotiation and execution of the merger agreement and consummation of the merger shall be no less than the $110 million;

EPIX shall have caused the board of directors of EPIX to be constituted as set forth the merger agreement; and

each of the current officers of EPIX who is not named in the merger agreement shall have delivered to EPIX their written resignations as officers of EPIX and each of the individuals named in the merger agreement shall have been appointed officers of EPIX.

Termination of the Merger Agreement

The merger agreement may be terminated at any time before the effective time of the merger, notwithstanding approval thereof by the board of directors and stockholders of Predix and EPIX, under the following circumstances:

by mutual written consent duly authorized by the board of directors of EPIX and Predix;

by either EPIX or Predix if the merger shall not have been consummated by August 31, 2006; provided, that the right to terminate the merger agreement for this reason shall not be available to any party whose failure to fulfill any obligation under the merger agreement has been the cause of or resulted in the failure of the merger to occur on or before such date;

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by either EPIX or Predix if a court of competent jurisdiction or governmental, regulatory or administrative agency or commission shall have issued a non-appealable final order, decree or ruling or taken any other action prohibiting the merger;

by EPIX, if the board of directors of Predix shall have withheld or withdrawn its recommendation in favor of the merger, or if there shall have occurred any material adverse effect with respect to Predix since the date of the merger agreement;

by Predix, if the board of directors of EPIX shall have withheld or withdrawn its recommendation in favor of the merger, or if there shall have occurred any material adverse effect with respect to EPIX since the date of the merger agreement;

by either EPIX or Predix, if the required approval of the stockholders of EPIX or Predix shall not have been obtained by reason of the failure to obtain the requisite vote, provided, that the right to terminate the merger agreement for this reason shall not be available to any party where the failure to obtain stockholder approval of such party shall have been caused by the action or failure of such party in breach of the merger agreement;

by either EPIX or Predix, upon a breach of any covenant or agreement on the part of Predix or EPIX, respectively, set forth in the merger agreement, in either case, such that certain conditions set forth in the merger agreement, would not be satisfied, or a Terminating Breach, provided, that, if such Terminating Breach is curable through the exercise of commercially reasonable efforts prior to the expiration of five days from its occurrence (but in no event later than August 31, 2006) by EPIX or Predix, neither Predix nor EPIX, respectively, may terminate the merger agreement unless such 5-day period expires without such Terminating Breach having been cured; or

by either EPIX or Predix, if such party is not in material breach of any of its respective obligations under the merger agreement, if any representation or warranty on the part of the other party set forth in the merger agreement proves to have been untrue on the date of thereof, if such failure to be true would reasonably be likely to have a material adverse effect.

Notice/ Effect of Termination

Any termination of the merger agreement will be effective immediately upon the delivery of written notice of the terminating party to the other parties thereto. In the event of the termination of the merger agreement, the merger agreement shall forthwith become void and there shall be no liability on the part of any party thereto or any of its affiliates, directors, officers or stockholders except that nothing therein shall relieve any party from liability for any willful breach thereof. No termination of the merger agreement shall affect the obligations of the parties contained in the confidentiality agreement dated October 28, 2005 between EPIX and Predix.

Fees and Expenses

Except as set forth in the merger agreement, all fees and expenses incurred in connection with the merger agreement and the transactions contemplated thereby shall be paid by the party incurring such expenses, whether or not the merger is consummated. In addition, EPIX shall be solely responsible for all fees and expenses incurred in relation to the preparation, printing and filing of this joint proxy statement/ prospectus (including the preliminary materials related thereto) and the registration statement of which this joint proxy statement/ prospectus forms a part, in each case, including without limitation any amendments or supplements thereto.

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Predix shall pay EPIX a fee of $4.5 million upon the termination of the merger agreement by EPIX if:

- there is an uncured breach of any covenant or agreement;
- the board of directors of Predix shall have withheld or withdrawn its recommendation in favor of the merger;
- there shall have occurred any material adverse effect with respect to Predix since the date of the merger agreement; or
- Predix fails to obtain the requisite stockholder vote to approve the merger.

EPIX shall pay Predix a fee of $4.5 million upon the termination of the merger agreement by Predix if:

- there is an uncured breach of any covenant or agreement;
- the board of directors of EPIX shall have withheld or withdrawn its recommendation in favor of the merger;
- there shall have occurred any material adverse effect with respect to EPIX since the date of the merger agreement; or
- EPIX fails to obtain the requisite stockholder vote to approve the merger.

The fee payable pursuant to a termination under the merger agreement shall be paid within three business days after the first to occur of the events described in such sections.

Amendment and Waiver

The merger agreement may be amended by the parties thereto by action taken by or on behalf of their respective boards of directors at any time prior to the effective time; provided, however, that, after approval of the merger by the boards of directors and stockholders of EPIX and Predix, no amendment may be made which by law requires further approval by such stockholders or boards of directors without such further approval. The merger agreement may not be amended except by an instrument in writing signed by the parties thereto.

At any time prior to the effective time, any party to the merger agreement may, with respect to any other party thereto, (a) extend the time for the performance of any of the obligations or other acts, (b) waive any inaccuracies in the representations and warranties contained therein or in any document delivered pursuant thereto and (c) waive compliance with any of the agreements or conditions contained therein. Any such extension or waiver shall be valid if set forth in an instrument in writing signed by the party or parties to be bound.

Amendment No. 1

On July 10, 2006, EPIX and Predix entered into amendment no. 1 to the merger agreement to provide for the extension of the termination date of the merger agreement from July 31, 2006 to August 31, 2006 and to reflect certain technical modifications.

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THE VOTING AGREEMENTS

The following description of the voting agreements describes the material terms of the voting agreements. This description of the voting agreements is qualified in its entirety by reference to the form of voting agreement which is attached as Annex B to this joint proxy statement/ prospectus and is incorporated herein by reference. EPIX and Predix encourage you to read the entire form of voting agreement.

The following Predix stockholders entered into each entered into voting agreements with EPIX on April 3, 2006: Caduceus Private Investment, L.P., UBS PW Juniper Crossover Fund, L.L.C., Hare and Company FAO: Finsbury Worldwide Pharma, Yozma II (Israel) L.P., Yozma Venture Capital Ltd, YVC-Yozma Management & Investments Ltd., as trustee for Yozma II (B.V.I.) L.P., PCM Venture Capital L.P., Yamanouchi Venture Capital and PA International Limited. In the voting agreements, each has agreed to vote all shares of Predix common stock and preferred stock beneficially owned by them as of the record date (a) in favor of the approval and adoption of the merger agreement and the approval of the merger, (b) against any action that would preclude fulfillment of a condition under the merger agreement to EPIX s or EPIX Delaware, Inc. s obligation to consummate the merger, (c) against any action or agreement that would result in a breach in any material respect of any covenant, representation or warranty or any other obligation of Predix under the merger agreement and (d) against any acquisition transaction (other than the one contemplated by the merger agreement). In addition, they have each granted EPIX an irrevocable proxy to vote their shares of Predix common stock and preferred stock in the manner set forth above. Further, each has agreed that it will not (a) solicit proxies or participate in a solicitation in opposition to or in competition with the approval of the merger agreement or take any other action that would compete with or interfere with the timely consummation of the merger, (b) directly or indirectly encourage, initiate or cooperate in a stockholders vote or action by written consent of Predix s stockholders in opposition to or in competition with the approval of the merger agreement, or (c) become a member of a group with respect to any voting securities of Predix for the purpose of opposing or competing with the approval of the merger agreement. During the term of the voting agreements, each has also agreed to not transfer, sell, offer, exchange, pledge or otherwise dispose of any shares of Predix common stock and preferred stock, or any options to purchase shares of Predix common stock, owned by them.

Approximately 120,069 shares of Predix common stock and 6,769,289 shares of Predix preferred stock (on an as-converted to Predix common stock basis), which represents approximately 40% of the outstanding shares of Predix voting stock as of June 28, 2006 are subject to voting agreements and irrevocable proxies. The voting agreements will terminate on the earlier of the consummation of the merger or termination of the merger agreement pursuant to its terms.

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MANAGEMENT OF EPIX AFTER THE MERGER

Management and Board of Directors of EPIX After the Merger

Upon consummation of the merger, the EPIX board of directors is expected to be comprised of nine members. The following table lists the names, ages and positions of individuals designated by EPIX and Predix to be the management team and key employees of EPIX upon consummation of the merger and the expected members of the EPIX board of directors after the merger. The ages of the individuals are provided as of June 28, 2006.

Name	Age	Position
Management Team:		
Michael G. Kauffman, M.D., Ph.D.*	42	Chief Executive Officer
Andrew C.G. Uprichard, M.D.*	48	President
Kimberlee C. Drapkin, CPA*	38	Chief Financial Officer
Oren Becker, Ph.D.*	45	Chief Scientific Officer
Stephen R. Donahue, M.D.	41	Vice President of Clinical & Regulatory Affairs
Philip Graham, Ph.D.	43	Vice President of Product Management and Imaging
Silvia Noiman, Ph.D.*	50	Senior Vice President of Pipeline Management, General Manager Israel
Chen Schor, CPA*	34	Chief Business Officer
Sharon Shacham, Ph.D.	35	Vice President of Preclinical Development and Product Leadership
Brenda Sousa	42	Vice President of Human Resources
Directors:		
Christopher F.O. Gabrieli	46	Chairman of the Board
Patrick J. Fortune, Ph.D.	59	Director
Frederick Frank	73	Director
Michael Gilman, Ph.D.	51	Director
Michael G. Kauffman, M.D., Ph.D.	42	Director
Mark Leuchtenberger	50	Director
Robert J. Perez	41	Director
Gregory D. Phelps	57	Director
Ian F. Smith, CPA, ACA	39	Director

* Executive officer.

Mr. Perez will be the fifth person designated by EPIX to serve on the board of directors of EPIX after the merger.

Management and Key Employees of EPIX After the Merger

Michael G. Kauffman, M.D., Ph.D. has served as Predix s President and Chief Executive Officer and as a member of Predix s board of directors since August 2003. From September 2002 until August 2003, Dr. Kauffman served as President and Chief Executive Officer of Predix Pharmaceuticals, Inc., the wholly-owned U.S. subsidiary of Predix Pharmaceuticals Ltd., an Israeli corporation that Predix acquired in August 2003. From March 2000 to September 2002, Dr. Kauffman served as Vice President, Medicine, and Proteasome Inhibitor (Velcade) Program Leader at Millennium Pharmaceuticals Inc. Dr. Kauffman held senior positions at Millennium Predictive Medicine, Inc., as cofounder and Vice President of Medicine from September 1997 to February 2000. From September 1995 to September 1997, Dr. Kauffman served as Medical Director at Biogen Corporation (now Biogen Idec). He currently serves on the board of directors of Bioenvision, Inc., a publicly traded biopharmaceutical company, CombinatoRx, Inc., a publicly traded biopharmaceutical company. Dr. Kauffman received his M.D. and Ph.D.

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(Molecular Biology and Biochemistry) at Johns Hopkins and his postdoctoral training at Harvard University. He received his B.A. in Biochemistry *summa cum laude* from Amherst College and is board certified in Internal Medicine.

Andrew C.G. Uprichard, M.D. joined EPIX as President and Chief Operating Officer in July 2004. Dr. Uprichard has an extensive background in discovery research and development in the biopharmaceutical industry. Prior to joining EPIX, Dr. Uprichard served as Chief Operating Officer at ArQule, Inc. from 2002 to 2003 and at Curis, Inc. from 2000 to 2002. For the preceding 11 years, Dr. Uprichard held numerous management positions at Parke-Davis/ Warner-Lambert (now part of Pfizer) in pharmaceutical research, where his experience spanning drug discovery, pre-clinical and clinical development included the oversight of a number of IND filings. From 1997 to 2000, Dr. Uprichard was Vice President, Drug Development; from 1994 to 1997, the Senior Director, Cardiovascular Pharmacology; and from 1989 to 1994, Dr. Uprichard held various oversight positions in Cardiovascular Clinical Development. In the late 1980s, Dr. Uprichard was a Cardiology and Postdoctoral Fellow at the University of Michigan Medical School. Dr. Uprichard holds M.B., Ch.B. and M.D. degrees from the University of Edinburgh, Scotland; is a Fellow of the Royal College of Physicians of Edinburgh; a Fellow of the Faculty of Pharmaceutical Medicine and a Fellow of the American College of Physicians.

Kimberlee C. Drapkin, CPA has served as Predix s Chief Financial Officer since February 2005. From 1995 to February 2005, Ms. Drapkin held senior positions of increasing responsibility within the finance organization at Millennium Pharmaceuticals, Inc. with leadership responsibility for financial reporting, technical accounting, Sarbanes Oxley compliance and internal audit. Ms. Drapkin began her professional career at Price Waterhouse (now PricewaterhouseCoopers LLP) and is a Certified Public Accountant. Ms. Drapkin is a graduate of Babson College, holding a B.S. in Accounting *summa cum laude.*

Oren Becker, Ph.D. has served as Predix s Chief Scientific Officer since August 2003. Dr. Becker founded Predix Pharmaceuticals Ltd. and served as its Chief Technology Officer and on its board of directors from its inception in November 2000 through August 2003. Before founding Predix, Dr. Becker held a position as a visiting professor at Harvard University from 1999 to 2000 and a professor at Tel-Aviv University from 1994 to 2000. Dr. Becker received his B.Sc. in Physics and Chemistry *summa cum laude*, a B.A. in Philosophy *magna cum laude* and a Ph.D. in Theoretical Chemical Physics from the Hebrew University of Jerusalem and his postdoctoral training at Harvard University.

Stephen R. Donahue, M.D. has served as Predix s Vice President, Clinical and Regulatory Affairs since October 2004. From June 2003 to October 2004 he served as the medical director overseeing clinical research in atherosclerosis and metabolism at Merck, where he played a key role in securing regulatory approval of Vytorin (ezetimibe/simvastatin). From 1997 to June 2003, Dr. Donahue held several senior clinical positions at Bristol-Myers Squibb, in clinical pharmacology, metabolism and cardiovascular diseases. Dr. Donahue is a graduate of Georgetown University Medical School and Brown University. He completed his residency in internal medicine at Georgetown University Medical Center and is Board Certified in both Internal Medicine and Clinical Pharmacology.

Philip Graham, Ph.D. joined EPIX in October 1994 as a scientist after more than 5 years at Eli Lilly and Company. During his time at EPIX, Dr. Graham had management responsibility for chemical and analytical development along with pharmacology and toxicology. He played an important role in the research and development of Vasovist as well as leading the thrombus imaging program from lead optimization through the initiation of Phase II proof-of concept trials with EP-2104R. Dr. Graham received his Bachelor of Science (Hons, 1st Class) degree from the University of Otago, New Zealand, and his Ph.D. in Analytical Chemistry from the University of Massachusetts, Amherst.

Silvia Noiman, Ph.D. has served as Senior Vice President of Pipeline Management and General Manager of Predix s subsidiary in Israel since August 2003. Dr. Noiman founded Predix Pharmaceuticals Ltd. and served as its Chief Operating Officer from November 2000 until August 2003. Before founding Predix Pharmaceuticals Ltd., Dr. Noiman performed private entrepreneurship activities in the Biotechnology Industry in Israel from 1998 to 2000. Dr. Noiman held an academic position at the

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Weizmann Institute of Science from 1993 to 1996. Dr. Noiman received her Ph.D. (Molecular Biology) and MBA at Tel-Aviv University.

Chen Schor, CPA has served as Predix s Chief Business Officer since January 2004. From 1998 to December 2003 Mr. Schor served as Partner, Life Sciences, and Chief Financial Officer, at Yozma Venture Capital Group. Yozma was one of the lead investors in Predix Pharmaceuticals Ltd. when the company was founded in 2000. Mr. Schor served as a member of the board of directors of Predix Pharmaceuticals Ltd. from November 2000 to August 2003 and Predix Pharmaceuticals, Inc. from September 2001 until August 2003. Mr. Schor served as a member of Predix s board of directors from August 2003 until December 2003. Mr. Schor previously held positions at Arthur Andersen from 1995 to 1996 and BDO consultants from 1996 to 1998 and holds an MBA, B.A. in Biology, B.A. in Economics and is a Certified Public Accountant.

Sharon Shacham, Ph.D. has been a member of Predix s scientific management team since Predix was founded in 2000. Dr. Shacham joined Predix with its founders and was the lead scientist in G-Protein Coupled Receptor modeling; her Ph.D. thesis provided the basis for much of Predix s original and current computational technology, including *in silico* screening protocols and early hit identification. As one of the original employees of Predix, Dr. Shacham has played a key role in the discovery and development of Predix s clinical and pre-clinical drug candidates. In January 2006, Dr. Shacham was promoted to Vice President of Preclinical Development and Product Leadership. Prior to joining Predix, she received a B.Sc. in Chemistry *magna cum laude*, a Ph.D. in Biochemistry and Biophysics, and an MBA, from Tel Aviv University.

Brenda Sousa joined EPIX in June 1998. Ms. Sousa joined EPIX from RKS Health Ventures and the Spence Center for Women s Health where she was the Director of Human Resources from June 1995 to May 1998. Prior to 1998, Ms. Sousa spent ten years in the hospitality industry with Hilton, Stouffers and Sonesta hotels in a variety of sales and marketing positions. She is a member of the board of directors for a nonprofit organization, Career Collaborative, and is the Chair of their Employer Advisory Committee. Ms. Sousa holds an Associates Degree in Psychology.

Board of Directors of EPIX After the Merger

Christopher F.O. Gabrieli has been a member of the board of directors of EPIX since 1994, and he is the Chairman of the board of directors. Mr. Gabrieli is the Chairman of Massachusetts 2020, a non-profit public policy organization. He is a member of the general partners of Bessemer Venture Partners III L.P. and Bessemer Venture Partners IV L.P. and related venture capital partnerships, where he worked from 1986 to 2000. Mr. Gabrieli is a candidate for the Governor of the Commonwealth of Massachusetts, the general election for which is scheduled in November 2006.

Patrick J. Fortune, Ph.D. has served as a member of Predix s board of directors since January 2005. Dr. Fortune has been a partner at Boston Millennia Partners since August 2001. He was previously President and Chief Operating Officer of New Era of Networks from 1999 to July 2001; Vice President at Monsanto from 1995 to 1999; Vice President at Bristol-Myers Squibb from 1991 to 1994; Group President at Baxter International from 1984 to 1989 and Vice President of Research and Development at Baxter International from 1982 to 1984. Dr. Fortune currently serves on the board of directors of Parexel International Corp. and several private companies. He has served on the engineering and scientific advisory boards of the University of Wisconsin, the University of Illinois and the University of Chicago. Dr. Fortune holds a B.A. from the University of Wisconsin, an MBA from Northwestern University and a Ph.D. in Physical Chemistry from the University of Wisconsin.

Frederick Frank joined Predix s board of directors as chairman in January 2001. Mr. Frank is Vice Chairman and a Director of Lehman Brothers. Before joining Lehman Brothers as a Partner in September 1969, Mr. Frank was co-director of research, as well as Vice President and Director, of Smith, Barney & Co. Incorporated. He is a Chartered Financial Analyst, member of The New York Society of Security Analysts and a past president of the Chemical Processing Industry Analysts. Mr. Frank is a director of Diagnostic Products Corporation, Landec Corporation and Pharmaceutical Product Development, Inc., all

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of which are publicly traded companies. He also serves on the boards of directors of Business Engine, Digital Arts & Sciences, Inc. and eSoft, Inc. He is Chairman of the National Genetics Foundation, a director of the Salk Institute, a member of the Pharmaceutical Executive Magazine advisory board, a member of the Board of Governors of the National Center for Genome Resources, Chairman of the Board of The Irvington Institute for Immunological Research, a member of the Advisory Board of The Harvard School of Public Health and also the John Hopkins Bloomberg School of Public Health. Mr. Frank holds a B.A. from Yale University and an MBA from Stanford Business School.

Michael Gilman, Ph.D. has been a director of EPIX since April 2006. Most recently he was Executive Vice President, Research at Biogen Idec. He joined Biogen in 1999 as Director of Molecular Biology and became head of research at Biogen in 2000. Dr. Gilman was Executive Vice President and Chief Scientific Officer of ARIAD Pharmaceuticals from 1995 to 2000. Prior to that, Dr. Gilman spent eight years on the scientific staff of Cold Spring Harbor Laboratory in New York, where his research focused on mechanisms of signal transduction and gene regulation. Dr. Gilman holds a Ph.D. in Biochemistry from University of California, Berkeley, and a S.B. in Life Sciences from Massachusetts Institute of Technology.

Michael G. Kauffman, M.D., Ph.D. See Dr. Kauffman s biography set forth under Management and Key Employees of EPIX After the Merger above.

Mark Leuchtenberger has been a member of the board of directors of EPIX since September 2004. Mr. Leuchtenberger is the President and Chief Executive Officer of Therion Biologics, a privately held biotechnology company developing therapeutic vaccines for cancer. Prior to joining Therion in 2002, Mr. Leuchtenberger spent 11 years at Biogen, Inc., where he led the development and launch of Avonex and ran North American and international commercial operations. Prior to Biogen, he was a consultant at Bain & Company specializing in healthcare. Mr. Leuchtenberger also serves on boards for the Massachusetts Biotechnology Council, Beth Israel Deaconess Medical Center and Wake Forest University.

Robert J. Perez is a nominee for election to the EPIX board of directors at the upcoming 2006 annual stockholders meeting and if the merger is consummated, he will be the fifth person designated by EPIX to serve on the board of directors of EPIX after the merger. Mr. Perez has served as Senior Vice President, Commercial Operations for Cubist Pharmaceuticals since July 2004 and served as Cubist s Senior Vice President, Sales and Marketing from August 2003 to July 2004. Prior to joining Cubist, Mr. Perez served as Vice President of Biogen s Central Nervous System Business Unit since 2001 and was responsible for leading the U.S. neurology franchise, including Biogen s product Avonex, along with customer support, medical affairs, reimbursement and training. From 1995 to 2001 he served as a Regional Director, Director of Sales, and Avonex Commercial Executive at Biogen. From 1987 to 1995, Mr. Perez held various sales and marketing positions at Zeneca Pharmaceuticals, ultimately serving as Regional Business Manager, responsible for strategic planning and profitability of a regional business unit, managing both national accounts and regional sales managers. Mr. Perez received a BS from California State University, Los Angeles and an MBA from The Anderson School at UCLA.

Gregory D. Phelps has been a Director of EPIX since July 2004. Mr. Phelps is the Chairman of the Board, President and Chief Executive Officer of RenaMed Biologics, Inc., a biotechnology company developing therapeutic products. He has previously held positions of Chief Executive Officer of Ardais Corporation, Viagene, Inc. and ZymoGenetics, Inc. He has also served as Vice Chairman of Dyax Corporation, Executive Vice President of Genzyme Corporation and Vice President of Baxter Travenol Laboratories, Inc. (now Baxter Healthcare).

Ian F. Smith, CPA, ACA has been a member of Predix s board of directors since May 2005. Mr. Smith is currently Senior Vice President and Chief Financial Officer of Vertex Pharmaceuticals Incorporated. He began as Vice President and Chief Financial Officer in October 2001, and was promoted to Senior Vice President and Chief Financial Officer in November 2003. Prior to joining Vertex Mr. Smith was a partner in the Life Science and Technology Practice of Ernst & Young, LLP since 1999. He had various responsibilities in Ernst & Young s accounting, auditing and mergers and acquisitions groups. Mr. Smith initially joined Ernst & Young s U.K. firm in 1987, and then joined its Boston office in

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1995. Mr. Smith holds a B.A. in Accounting and Finance from Manchester Metropolitan University, U.K., is a member of the American Institute of Certified Public Accountants and is a Chartered Accountant of England and Wales.

Board Composition of EPIX After the Merger

Upon the closing of the merger, EPIX s board of directors will be divided into three classes, with each director serving a three-year term and one class being elected at each year s annual meeting of stockholders. A majority of the members of the EPIX board of directors after the merger will be independent within the meaning of the director independence standards of The NASDAQ Global Market and the applicable rules of the Securities and Exchange Commission. Messrs. Gabrieli and Perez and Dr. Fortune will be in the class of directors whose initial term expires at the 2007 annual meeting of stockholders. Messrs. Phelps, Frank and Smith will be in the class of directors whose initial term expires at the 2008 annual meeting of the stockholders. Mr. Leuchtenberger and Drs. Gilman and Kauffman will be in the class of directors whose initial term expires at the 2009 annual meeting of stockholders. This classification of the EPIX board of directors will make it more difficult for a third party to acquire control of EPIX after the merger.

Committees of the Board of EPIX After the Merger

The EPIX board of directors has established three standing committees: the audit committee, the compensation committee and the corporate nominating and governance committee. In addition, after the merger the composition of the committees will change as a result of the resignation of certain existing EPIX directors and the election of four Predix directors to the board of directors of EPIX.

Audit Committee. EPIX s audit committee after the merger will consist of Ian F. Smith CPA, ACA, Christopher F.O. Gabrieli and Gregory D. Phelps, each of whom will be independent within the meaning of the director independence standards of The NASDAQ Global Market and the applicable rules of the Securities and Exchange Commission. Mr. Smith will serve as Chairman of EPIX s audit committee after the merger and also qualify as an audit committee financial expert, as that term is defined under the recently adopted Securities and Exchange Commission rules. Each member of EPIX s audit committee after the merger will meet the then current independence and financial literacy requirements promulgated by the Securities and Exchange Commission and by The NASDAQ Global Market. EPIX s audit committee after the merger will be responsible for preparing such reports, statements or charters as may be required by The NASDAQ Global Market or federal securities laws, as well as, among other things:

- reviewing the engagement of independent accountants and retaining and terminating the services of independent accountants;
- considering matters relating to accounting policy and internal controls and reviewing the scope of annual audits;
- reviewing annual financial statements;
- preparing the report that Securities and Exchange Commission rules require be included in its annual proxy statement;
- overseeing and monitoring its independent registered public accounting firm s qualifications, independence and performance;
- providing the EPIX board of directors with the results of its monitoring and recommendations; and
- providing to the EPIX board of directors after the merger additional information and materials as it deems necessary to make the EPIX board of directors aware of significant financial matters that require the attention of the EPIX board of directors.

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Compensation Committee. EPIX s compensation committee after the merger will be composed of Patrick J. Fortune, Ph.D., Mark Leuchtenberger and Michael Gilman, Ph.D., each of whom will be independent within the meaning of the director independence standards of The NASDAQ Global Market and the applicable rules of the Securities and Exchange Commission. Mr. Leuchtenberger will serve as Chairman of EPIX s compensation committee after the merger. The compensation committee will be responsible for, among other things:

determining the compensation of EPIX s Chief Executive Officer, (conducting its decision making process with respect to that issue without the Chief Executive Officer present);

formulating, evaluating and approving the compensation of the EPIX directors, other executive officers and key employees; and

administering EPIX s equity plans.

Corporate Nominating and Governance Committee. EPIX s corporate nominating and governance committee after the merger will be composed of Frederick Frank, Mark Leuchtenberger and Gregory D. Phelps, each of whom will be independent within the meaning of the director independence standards of The NASDAQ Global Market and the applicable rules of the Securities and Exchange Commission. Mr. Phelps will serve as Chairman of EPIX s corporate nominating and governance committee after the merger. The corporate nominating and governance committee will be responsible for, among other things, making recommendations to the full board of directors of EPIX as to the size and composition of the EPIX board of directors and to make recommendations as to particular nominees. For all potential candidates, the corporate nominating and governance committee will consider all factors it deems relevant, such as a candidate s personal integrity and sound judgment, business and professional skills and experience, independence, knowledge of the industry in which the combined company operates, possible conflicts of interest, diversity, the extent to which the candidate would fill a present need on the EPIX board of directors, and concern for the long-term interests of EPIX s stockholders. In general, persons recommended by stockholders will be considered on the same basis as candidates from other sources. If a stockholder wishes to nominate a candidate to be considered for election as a director of EPIX, it must follow the procedures described in EPIX s by-laws. If a stockholder wishes simply to propose a candidate for consideration as a nominee by the corporate nominating and governance committee, it should submit any pertinent information regarding the candidate to the attention of the Chairman of the corporate nominating and governance committee, EPIX Pharmaceuticals, Inc., 161 First Street, Cambridge, MA 02142.

Compensation Committee Interlocks and Insider Participation with Respect to EPIX

Each member of EPIX s compensation committee after the merger will be an outside director as that term is defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, and a non-employee director within the meaning of Rule 16b-3 of the rules promulgated under the Securities Exchange Act of 1934, as amended. At the effective time of the merger, it is not expected that any of EPIX s executive officers will serve as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on the EPIX board of directors or compensation committee after the merger.

Compensation of EPIX s Board of Directors

EPIX expects to compensate the members of its board of directors and the committees thereof in accordance with EPIX s current compensation policies. See Current Management of EPIX and Related Information Board of Directors of EPIX.

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CURRENT MANAGEMENT OF EPIX AND RELATED INFORMATION

Board of Directors of EPIX

EPIX s by-laws provide that EPIX s business is to be managed by or under the direction of the EPIX board of directors and that the number of members of the EPIX board of directors be fixed from time to time by the EPIX board of directors. The EPIX board of directors is divided into three classes for purposes of election. One class is elected at each annual meeting of stockholders to serve for a three-year term. The EPIX board of directors currently consists of five members, classified into three classes as follows: (a) Gregory D. Phelps constitutes a class with a term ending at the 2007 annual meeting; (b) Peter Wirth, Mark Leuchtenberger and Michael Gilman, Ph.D. constitute a class with a term ending at the upcoming 2006 annual meeting; and (c) Christopher F.O. Gabrieli constitutes a class with a term ending at the 2008 annual meeting. Mr. Wirth has notified EPIX that he is not standing for reelection at the 2006 EPIX annual stockholders meeting.

The EPIX board of directors voted to nominate each of Mark Leuchtenberger and Michael Gilman, Ph.D. for election at the upcoming annual meeting for a term of three years, to serve until the 2009 annual meeting of stockholders, and to nominate Robert J. Perez for election at the upcoming annual meeting for a term of one year, to serve until the 2007 annual meeting of stockholders, and until their successors have been elected and qualified.

Set forth below are the names of the persons nominated as directors and directors whose terms do not expire this year, their ages, their offices in the Company, if any, their principal occupations or employment for the past five years, the length of their tenure as directors and the names of other public companies in which such persons hold directorships.

Name	Age	Position with EPIX
Christopher F.O. Gabrieli	46	Chairman of the Board
Mark Leuchtenberger	49	Director
Robert J. Perez	41	Nominee for Director
Gregory D. Phelps	57	Director
Michael Gilman, Ph.D.	51	Director

Christopher F.O. Gabrieli, Chairman of the Board. See Mr. Gabrieli s biography set forth under Management of EPIX After the Merger Board of Directors of EPIX After the Merger.

Mark Leuchtenberger. See Mr. Leuchtenberger s biography set forth under Management of EPIX After the Merger Board of Directors of EPIX After the Merger.

Robert J. Perez. See Mr. Perez s biography set forth under Management of EPIX After the Merger Board of Directors of EPIX After the Merger.

Gregory D. Phelps. See Mr. Phelps s biography set forth under Management of EPIX After the Merger Board of Directors of EPIX After the Merger.

Michael Gilman, Ph.D. See Dr. Gilman s biography set forth under Management of EPIX After the Merger Board of Directors of EPIX After the Merger.

The EPIX board of directors has determined that all of the current members of the EPIX board of directors qualify as independent under the definition promulgated by The NASDAQ Global Market.

Committees of the EPIX Board of Directors and Meetings

Meeting Attendance. During the fiscal year ended December 31, 2005, there were eight meetings of the EPIX board of directors, and the various committees of the board of directors met a total of eight times. No director attended fewer than 75% of the total number of meetings of the board of directors and the committees of the board of directors on which he served during the year ended December 31, 2005.

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The EPIX board of directors has adopted a policy under which each member of the EPIX board of directors is encouraged to participate in the annual meeting of stockholders. No members of the EPIX board of directors attended the annual meeting of stockholders held in 2005.

Audit Committee. EPIX s audit committee met six times during the fiscal year ended December 31, 2005. This committee currently has three members: Peter Wirth (Chairman), Christopher F.O. Gabrieli and Mark Leuchtenberger. The audit committee reviews the engagement of EPIX s independent accountants and has the authority to retain and terminate the services of EPIX s independent accountants, reviews annual financial statements, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits. All members of the audit committee satisfy the current independence standards promulgated by the Securities and Exchange Commission and by The NASDAQ Global Market; as such standards apply specifically to audit committees. The EPIX board of directors has determined that Mr. Leuchtenberger is an audit committee financial expert, as the Securities and Exchange Commission has defined that term in Item 401 of Regulation S-K. Please also see the report of the audit committee set forth elsewhere in this joint proxy statement/ prospectus.

Compensation Committee. EPIX s compensation committee met two times during the year ended December 31, 2005. This committee currently has three members: Christopher F.O. Gabrieli (Chairman), Mark Leuchtenberger and Gregory D. Phelps. The compensation committee reviews, approves and makes recommendations regarding EPIX s compensation policies, practices and procedures to ensure that the legal and fiduciary responsibilities of the EPIX board of directors are carried out and that such policies, practices and procedures contribute to EPIX s success. The compensation committee is responsible for the determination of the compensation of EPIX s Chief Executive Officer, and conducts its decision making process with respect to that issue without the Chief Executive Officer present. In addition, the compensation committee is responsible for formulating, evaluating and approving the compensation of EPIX s directors, other executive officers and key employees and is responsible for the administration of EPIX s equity plans. All members of the compensation committee qualify as independent under the definition promulgated by The NASDAQ Global Market. Please also see the report of the compensation committee set forth elsewhere in this joint proxy statement/ prospectus.

Compensation Committee Interlocks and Insider Participation. EPIX s compensation committee has three members: Christopher F.O. Gabrieli (Chairman), Mark Leuchtenberger and Gregory D. Phelps. There are no interlocking relationships between members of EPIX s compensation committee and the compensation committees of other companies boards of directors.

Nominating and Governance Committee. EPIX s nominating and governance committee did not meet during the year ended December 31, 2005. The nominating and governance committee has two members: Christopher F.O. Gabrieli (Chairman) and Peter Wirth. This committee s role, following consultation with all other members of the EPIX board of directors, is to make recommendations to the full board of directors as to the size and composition of the board of directors and to make recommendations as to particular nominees. All members of the nominating and governance committee qualify as independent under the definition promulgated by The NASDAQ Global Market. The nominating and governance committee may consider candidates recommended by EPIX s stockholders as well as from other sources such as other directors and officers, third party search firms or other appropriate sources. For all potential candidates, the nominating and governance committee may consider all factors it deems relevant, such as a candidate s personal integrity and sound judgment, business and professional skills and experience, independence, knowledge of the industry in which EPIX operates, possible conflicts of interest, diversity, the extent to which the candidate would fill a present need on the EPIX board of directors, and concern for the long-term interests of EPIX s stockholders. In general, persons recommended by stockholders will be considered on the same basis as candidates from other sources. If a stockholder wishes to nominate a candidate to be considered for election as a director at the 2007 annual meeting of EPIX stockholders, it must use the procedures described under Stockholder Nominations of Director in EPIX s by-laws. If a stockholder wishes simply to propose a candidate for consideration as a nominee by the nominating and governance committee, it should submit any pertinent

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information regarding the candidate to the attention of the Chairman of the nominating and governance committee, EPIX Pharmaceuticals, Inc., 161 First Street, Cambridge, MA 02142.

A copy of the nominating and governance committee s written charter is publicly available on EPIX s website at www.epixpharma.com.

Stockholder Communications to the EPIX Board of Directors

Generally, stockholders who have questions or concerns about EPIX should contact EPIX s Investor Relations Department at (617) 250-6012. However, any stockholders who wish to address questions regarding EPIX s business directly with the board of directors or any individual director should direct his or her questions to the EPIX board of directors or appropriate member of the board of directors through EPIX s third-party service provider, Ethicspoint, Inc., at www.ethicspoint.com.

Compensation of EPIX Directors

EPIX pays each non-employee director who serves on a committee of the EPIX board of directors an annual fee of $25,000 for service as a director of EPIX and as a committee member. EPIX pays each non-employee director who does not also serve on a committee of the EPIX board of directors an annual fee of $15,000 for service as a director of EPIX. During 2005, EPIX paid its outside directors the following fees: Mr. Gabrieli $25,000, Mr. Leuchtenberger $22,500, Mr. Phelps $16,250, and Mr. Wirth $25,000. Stanley T. Crooke, M.D., Ph.D., who resigned from the EPIX board of directors in June 2005, was paid $12,500 in connection with his service on the EPIX board of directors. In addition, non-employee directors are eligible to participate in EPIX s Amended and Restated 1996 Director Stock Option Plan, or the Director Plan. Upon the appointment, election or reelection of a non-employee director, such director is automatically granted an option to purchase 25,000 shares of EPIX common stock. Such options become exercisable in equal installments over a three-year period on each anniversary of the grant, provided that the optionee is still a director of EPIX at the opening of business on such applicable date. Commencing with grants made on or after the annual meeting of stockholders, this initial grant shall be subject to adjustment if a director receives stock options upon appointment to the EPIX board of directors between annual meetings of stockholders to fill a vacancy or newly elected directorship and any such option shall become exercisable in equal monthly installments from the date of grant until the first annual meeting of stockholders at which such director is nominated for election or reelection. In addition, each non-employee director is automatically granted an option to purchase 5,000 shares of EPIX common stock annually during the years in which such director is not up for reelection to the EPIX board of directors. Such options become exercisable in full on the first anniversary date of the grant, provided that the optionee is still a director of EPIX at the opening of business on such date. Each option has a term of ten years and becomes vested in full in the event of a merger (in which EPIX does not survive) or liquidation of EPIX. The exercise price for each option is equal to the fair market value of the EPIX common stock on the date of grant. During fiscal 2005, the following options were granted under the Director Plan: Mr. Gabrieli an option for 25,000 shares of EPIX common stock, Mr. Leuchtenberger an option for 5,000 shares of EPIX common stock, Mr. Phelps an option for 5,000 shares of EPIX common stock and Mr. Wirth an option for 5,000 shares of EPIX common stock. An option for 5,000 shares of EPIX common stock was also granted to Dr. Crooke, which was subsequently cancelled upon his resignation from the EPIX board of directors. Options granted during 2005 to Michael D. Webb are reported under Executive Compensation- Option Grants in EPIX s Last Fiscal Year.

Executive Officers of EPIX

The following table sets forth certain information regarding EPIX s executive officers who are not also directors. Dr. Uprichard and Mr. Pelletier serve at the pleasure of the EPIX board of directors. Mr. Pelletier and EPIX have agreed that Mr. Pelletier will resign as EPIX s Executive Director of Finance

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in August 2006 and that Mr. Pelletier will serve as a consultant to EPIX to assist in the transition following the closing of the merger between EPIX and Predix.

Name	Age	Position with EPIX
Andrew C.G. Uprichard, M.D.	48	President and Chief Operating Officer
Robert Pelletier, CPA	54	Executive Director of Finance

Andrew C. G. Uprichard, M.D., President and Chief Operating Officer. See Dr. Uprichard s biography set forth under Management of EPIX After the Merger Management and Key Employees of EPIX After the Merger.

Robert Pelletier, CPA, Executive Director of Finance. Mr. Pelletier joined EPIX in March 2003. He came to EPIX from The Medicines Company where he was Senior Director of Finance from July 2000 to March 2003. Prior to July 2000, Mr. Pelletier spent nine years as Controller and subsequently Vice President of Finance at AverStar Inc., a software company that provided engineering and software services, products/tools and integrated system solutions to government and commercial customers, and eleven years at Textron, Inc. in various accounting and finance roles. He holds a BS in Accounting from the University of Rhode Island, an MBA from Bentley College and is a Certified Public Accountant.

Compensation of EPIX Executives

Summary Compensation Table

The following table shows the total compensation paid or accrued during the three years ended December 31, 2003, 2004 and 2005 to (a) EPIX s former Interim Chief Executive Officer, (b) EPIX s former Chief Executive Officer and (c) EPIX s three next most highly compensated executive officers who earned more than $100,000 during the year ended December 31, 2005.

		Annual Compensation			Long-Term Compensation Awards Securities	
Name and Principal Position	Year	Salary	Bonus(1)	Other Annual Compensation	Underlying Options (#)	All Other Compensation
Andrew C.G. Uprichard, M.D.	2005	$ 309,872	$ 14,002		52,500	$ 2,803(3)
President and	2004	137,308	54,878(2)		175,000	2,677(3)
Chief Operating Officer	2003					
Robert Pelletier, CPA(4)	2005	175,188	25,835		23,281	4,591(3)
Executive Director of						
Finance	2004	157,961	34,609		7,288	4,078(3)
and Principal Accounting	2003	124,038	40,050		40,000	3,539(3)
Officer						
Michael J. Astrue(5)	2005	112,308				
Former Interim Chief						
Executive Officer	2004					
	2003					
Michael D. Webb	2005	356,517(6)			50,000	6,300(7)
Former Chief Executive						
Officer	2004	334,286	49,125		62,500	8,620(7)
	2003	313,351	137,722		66,500	6,225(7)

Peyton J. Marshall, Ph.D.(8)	2005	129,635			4,972(3)
Former Senior Vice President	2004	238,933	36,114	35,625	4,883(3)
and Chief Financial Officer	2003	225,000	80,156		3,404(3)

(1) Bonuses were earned in the year indicated and are generally paid in the subsequent year.

(2) Dr. Uprichard joined EPIX in July 2004 and the bonus compensation amount includes a $20,000 signing bonus.

(3) Consists of matching 401(k) contributions.

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(4) Mr. Pelletier and EPIX have agreed that Mr. Pelletier will resign as EPIX s Executive Director of Finance in August 2006.

(5) Mr. Astrue resigned as Interim Chief Executive Officer on May 5, 2006.

(6) Effective September 14, 2005, Mr. Webb resigned as Chief Executive Officer and member of the EPIX board of directors. This figure represents $254,435 earned by Mr. Webb as Chief Executive Officer through September 14, 2005, and $102,082 in fees and expense reimbursements, paid to Mr. Webb in connection with consulting services he provided to EPIX from September 14, 2005 through December 31, 2005.

(7) Consists of matching 401(k) contributions of $6,300, $6,000 and $6,000 in 2005, 2004 and 2003, respectively, and life insurance premiums paid by EPIX on behalf of Mr. Webb on a policy for the benefit of Mr. Webb of $2,620 in 2004 and $225 in 2003.

(8) Effective July 1, 2005, Mr. Marshall resigned as Senior Vice President, Finance and Administration and Chief Financial Officer of EPIX.

Option Grants in EPIX s Last Fiscal Year

The following table shows grants of stock options that EPIX made during the year ended December 31, 2005 to each of the executive officers named in the Summary Compensation Table, above.

	Individual Grants(1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
Name	Number of Securities Underlying Options Granted(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date	5%	10%
Andrew C.G. Uprichard, M.D.	52,500	8.83%	$ 7.15	3/17/2015	$ 236,071	$ 598,251
Robert Pelletier, CPA	8,281	1.39%	7.15	3/17/2015	37,236	94,364
	15,000	2.52%	8.69	6/24/2015	81,976	207,744
Michael J. Astrue						
Michael D. Webb(3)	50,000	8.41%	7.15	3/17/2015	224,830	569,763
Peyton J. Marshall, Ph.D.						

(1) These options were granted under EPIX s Amended and Restated 1992 Equity Incentive Plan, or the Equity Plan, at an exercise price equal to the fair market value of EPIX common stock at the date of grant. All of the options granted vest in five equal annual installments and began vesting on March 17, 2006 except for one of the grants to Mr. Pelletier which began vesting on June 24, 2006. With the exception of Mr. Pelletier s option for 8,281, which is an incentive stock option, each of the options cited above consists of a combination of non-qualified stock options and incentive stock options as follows: Dr. Uprichard s option consists of 41,992 non-qualified stock options and 10,508 incentive stock options; Mr. Pelletier s grant of 15,000 options consists of 7,907 non-qualified stock options and 7,093 incentive stock options, and Mr. Webb s option consists of 39,998 non-qualified options and 10,002 incentive stock options. The options are not transferable, except by will or by laws of descent and

distribution. The post-termination exercise period for exercisable options is generally three months. If an acquisition event also constitutes a change in control, or, if there is a change in control that does not also constitute an acquisition event, unless provided to the contrary in an agreement between EPIX and the optionee, the options or such assumed or substituted options shall become immediately exercisable in full, if within eighteen months of the change in control, a termination event (as defined below) with respect to the optionee occurs. If the acquiring or succeeding corporation does not agree to assume or issue substitute options for the options issued by EPIX, the options issued by EPIX shall become immediately exercisable in full. If the acquisition event involves a cash payment to EPIX s stockholders, the optionee shall receive a cash payment for each option equal to the amount by which the price to be paid in the acquisition exceeds the option exercise price.

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An acquisition event means (a) any merger or consolidation of EPIX with or into another entity as a result of which EPIX s common stock is converted into or exchanged for the right to receive cash, securities or other property; (b) any exchange of EPIX shares for cash, securities or other property pursuant to a statutory share exchange transaction; (c) any sale or exchange of all or substantially all of EPIX s assets in one transaction or in a series of transactions; or (d) a reorganization or liquidation of EPIX.

A change in control means either (a) (i) a merger or consolidation of EPIX, whether or not approved by the EPIX board of directors, other than a merger or consolidation in which EPIX s voting securities continue to represent at least 50% of the total voting power represented by EPIX s voting securities of the surviving entity outstanding immediately after the merger or consolidation, or (ii) the approval by EPIX s stockholders of an agreement for the sale or disposition by EPIX of all or substantially all of EPIX s assets; or (b) any person becoming the beneficial owner of EPIX s securities representing 50% or more of EPIX s total outstanding voting power (excluding EPIX or EPIX s affiliates or any EPIX employee benefit plan) pursuant to a transaction or a series of related transactions which the EPIX board of directors does not approve.

A termination event means the termination of the optionee s employment (a) by EPIX or the acquiring or succeeding corporation without cause; or (b) by the optionee upon written notice given promptly after EPIX s or the acquiring or succeeding corporation s taking any of the following actions, which actions shall not have been cured within a 30-day period following such notice: (i) the principal place of the performance of the optionee s responsibilities, or the Principal Location, is changed to a location outside of a 30 mile radius from the Principal Location immediately prior to the change in control; (ii) there is a material reduction in the optionee s salary; or (iii) there is a material diminution in the scope of the optionee s responsibilities without the optionee s agreement or without cause.

(2) In accordance with the rules of the Securities and Exchange Commission, EPIX shows in these columns the potential realizable value over the term of the option (the period from the grant date to the expiration date). EPIX calculates this assuming that the fair market value of EPIX s common stock on the date of grant appreciates at the indicated annual rate, 5% and 10% compounded annually, for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. These amounts are based on assumed rates of appreciation and do not represent an estimate of EPIX s future stock price. Actual gains, if any, on stock option exercises will depend on the future performance of EPIX s common stock, the optionholder s continued employment with EPIX through the option exercise period, and the date on which the option is exercised.

(3) Effective September 14, 2005, Mr. Webb resigned as Chief Executive Officer and member of the EPIX board of directors, but continued to provide consulting services to EPIX through December 31, 2005. In connection with his departure from EPIX these options have now been cancelled.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table shows information regarding exercises of options to purchase EPIX common stock by each executive officer named in the Summary Compensation Table during the year ended December 31, 2005. The table also shows the aggregate value of options held by each executive officer named in the Summary Compensation Table as of December 31, 2005. The value of the unexercised in-the-money options at fiscal year end is based on a value of $4.04 per share, the closing price of EPIX s

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common stock on The NASDAQ Global Market on December 31, 2005 (the last trading day prior to the fiscal year end), less the per share exercise price.

Name	Shares Acquired on Exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of the Unexercised In-The-Money Options at Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Andrew C.G. Uprichard, M.D.		$	35,000	192,500	$	$
Robert Pelletier, CPA			9,457	53,112		
Michael J. Astrue						
Michael D. Webb	30,000	66,600	467,794			
Peyton J. Marshall, Ph.D.	20,500	52,682				

(1) Amounts shown in this column do not necessarily represent actual value realized from the sale of the shares acquired upon exercise of the option because in many cases the shares are not sold on exercise but continue to be held by the executive officer exercising the option. The amounts shown represent the difference between the option exercise price and the market price on the date of exercise, which is the amount that would have been realized if the shares had been sold immediately upon exercise.

Equity Compensation Plan Information

The following table provides certain aggregate information with respect to all of EPIX s equity compensation plans in effect as of December 31, 2005.

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity Compensation Plans Approved by Securityholders(1)	3,271,909	$ 11.39	1,519,165(2)(3)(4)(5)
Equity Compensation Plans not Approved by Securityholders	N/A	N/A	N/A
Total	3,271,909	$ 11.39	1,519,165

(1) These plans consist of EPIX s Amended and Restated 1992 Equity Incentive Plan, or the Equity Plan, the Amended and Restated 1996 Director Stock Option Plan, or the Director Plan, and the Amended and Restated 1996 Employee Stock Purchase Plan, or the Employee Plan.

(2) Includes options to purchase 1,032,521 shares of EPIX common stock issued under the Equity Plan that were cancelled after December 31, 2005.

(3) Does not include options to purchase 300,562 shares of EPIX common stock issued under the Equity Plan that were granted to employees after December 31, 2005.

(4) Includes options to purchase 53,334 shares of EPIX common stock issued under the Director Plan that were cancelled after December 31, 2005.

(5) Does not include 149,916 shares of EPIX common stock issued to date under the Employee Plan. Shares of EPIX common stock that are set aside within the Employee Plan immediately become outstanding EPIX common stock when purchased by employees.

Employment and Severance Agreements

On September 21, 2005, EPIX entered into an employment agreement, or the Employment Agreement, with Michael J. Astrue, as amended on March 7, 2006, pursuant to which he served as

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EPIX s Interim Chief Executive Officer until his resignation, effective May 5, 2006. Under the terms of the Employment Agreement, Mr. Astrue received a salary at the annual rate of $400,000, paid in accordance with EPIX s usual payroll practices. Mr. Astrue was also entitled to participate in employee benefits offered by EPIX to its other senior management employees and reimbursement of reasonable expenses incurred in promoting EPIX s business. The Employment Agreement allowed Mr. Astrue to devote reasonable time to certain outside activities, as set forth in the Employment Agreement, provided such activities did not conflict in any material way with EPIX s business. By the terms of the Employment Agreement and contemporaneous with its execution, EPIX and Mr. Astrue entered into EPIX s standard indemnification agreement. EPIX also agreed to maintain, at a reasonable cost, directors and officers liability insurance that covers Mr. Astrue to the same extent as other senior management employees of EPIX. The Employment Agreement also contained confidentiality and assignment of inventions provisions.

In connection with Mr. Astrue s resignation as Interim Chief Executive Officer on May 5, 2006, Mr. Astrue entered into a consulting agreement with EPIX, or the Consulting Agreement, pursuant to which he will provide consulting services to EPIX through July 31, 2006 on an independent contractor basis. Mr. Astrue will consult with EPIX on matters relating to, among other things, the completion of the merger. Mr. Astrue will provide consulting services to EPIX upon EPIX s request and at times mutually agreeable to the parties. Mr. Astrue will receive $300 per hour for his consulting services payable within 30 days following receipt of an invoice by EPIX. EPIX may terminate the Consulting Agreement by providing 30 days prior written notice to Mr. Astrue. The Consulting Agreement also contains confidentiality and assignment of inventions provisions.

On September 14, 2005, EPIX entered into a severance and incentive agreement, or the Severance Agreement, with Andrew C.G. Uprichard, M.D. Pursuant to the Severance Agreement, if Dr. Uprichard is terminated without cause or resigns under certain circumstances involving a change in title, a diminution of duties, or a material reduction in salary, then, in exchange for a complete release of all claims against EPIX, EPIX will pay Dr. Uprichard severance of one year s salary, paid in accordance with EPIX s usual payroll practices, and will pay the costs to continue his medical and dental insurance pursuant to COBRA for one year following the termination date. The Severance Agreement will not apply in the event of a termination following a change in control, in which case, Dr. Uprichard may be eligible for severance pay in accordance with the severance arrangements with executive officers and certain other senior managers authorized by the EPIX board of directors in 2003 and further described below. On May 19, 2006, the Severance Agreement was amended to delay the date on which Dr. Uprichard would be required to voluntarily terminate his employment in order to trigger certain severance rights under the Severance Agreement if the merger is completed. The Severance Agreement, as amended, requires that, if the merger is completed, Dr. Uprichard voluntarily terminates his employment within one calendar year following certain events involving a change in title, a diminution of duties or a material reduction in salary in order to be entitled to the severance benefits. If the merger is not completed, Dr. Uprichard is required to voluntarily terminate his employment within 90 days following the above referenced events to trigger the severance benefits.

In connection with Michael D. Webb s resignation as Chief Executive Officer and member of the board of directors of EPIX, effective September 14, 2005, EPIX entered into a separation agreement, or the Separation Agreement, with Mr. Webb, pursuant to which Mr. Webb continued to serve as a consultant to EPIX until December 31, 2005 on an independent contractor basis. Pursuant to the Separation Agreement, beginning in January 2006, Mr. Webb is entitled to receive severance pay in the amount of $175,150.50, payable in six approximately equal monthly payments. EPIX has also agreed to cover the cost of the COBRA payments to continue Mr. Webb s participation in its medical and dental insurance plans during the period in which these severance payments are made. Under the terms of the Separation Agreement, Mr. Webb s options vested until September 14, 2005 and he had the right to exercise any vested incentive stock options in accordance with the terms of the stock option awards and the plan pursuant to which they were granted and to exercise any vested nonqualified stock options up through and including the 90th day following the conclusion of his consulting work for EPIX.

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EPIX s board of directors has authorized a severance arrangement for its executive officers and selected other senior managers, under which each such officer or manager who is subject to a termination event following a change in control of EPIX (as defined in footnote 1 to the table under Option Grants in EPIX s Last Fiscal Year) will receive a cash payment of six months base salary, plus one additional month of base salary for each year of employment with EPIX, up to a maximum potential payment of twelve months base salary. In addition, as set forth in footnote 1 to the table under Option Grants in EPIX s Last Fiscal Year , options held by EPIX s executive officers contain provisions for acceleration of vesting under certain circumstances in the event of a change in control of EPIX.

Performance Graph

The following graph compares the annual percentage change in EPIX s cumulative total stockholder return on EPIX common stock during a period commencing on December 31, 2000 and ending on December 31, 2005 (as measured by dividing (a) the sum of the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and the difference between the EPIX share price at the end and the beginning of the measurement period; by (b) the EPIX share price at the beginning of the measurement period) with the cumulative total return of The NASDAQ Stock Market Index (U.S.) and The NASDAQ Pharmaceutical Stock Index during such period. EPIX has not paid any dividends on its common stock, and EPIX does not include dividends in the representation of its performance. The stock price performance on the graph below does not necessarily indicate future price performance. Information used on the graph was obtained from Hemscott, Inc., a source believed to be reliable, but EPIX is not responsible for any errors or omissions in such information.

COMPARISON OF CUMULATIVE TOTAL RETURN OF ONE OR MORE COMPANIES, PEER GROUPS, INDUSTRY INDEXES AND/ OR BROAD MARKETS

	Fiscal Year Ending					
Company/Index/Market	**12/29/2000**	**12/31/2001**	**12/31/2002**	**12/31/2003**	**12/31/2004**	**12/30/2005**
EPIX Pharmaceuticals, Inc.	$ 100.00	$ 170.63	$ 86.33	$ 194.39	$ 213.85	$ 48.24
NASDAQ Pharmaceuticals	100.00	84.95	52.36	75.53	81.63	90.02
NASDAQ US Only	100.00	77.19	54.01	82.10	89.52	92.74

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Report of the Compensation Committee of the EPIX Board of Directors on Executive Compensation

This report is submitted by the compensation committee of the EPIX board of directors, which is responsible for establishing and administering EPIX s executive compensation policies and stock option plans. The compensation committee s role and responsibilities are set forth in the compensation committee s charter adopted by the EPIX board of directors. At December 31, 2005, the compensation committee was composed of Christopher F.O. Gabrieli (Chairman), Mark Leuchtenberger and Gregory D. Phelps, who are each independent, non-employee directors. This report addresses the compensation policies for the year ended December 31, 2005 as they affected Michael D. Webb, in his capacity as Chief Executive Officer through September 14, 2005, Michael J. Astrue, in his capacity as Interim Chief Executive Officer beginning on September 14, 2005 through December 31, 2005, and EPIX s other executive officers included in the Summary Compensation Table. EPIX s compensation programs are designed to provide a competitive level of total compensation, which, at EPIX s present stage of development, is heavily weighted toward equity incentive compensation linked to EPIX s performance. This program includes base salary and both annual and long-term incentive compensation.

Compensation Philosophy

The design and implementation of EPIX s executive compensation programs are based on a series of guiding principles derived from EPIX s values, business strategy and management requirements. These principles may be summarized as follows:

attract, motivate and retain high caliber individuals who are responsible for leading EPIX in achieving or exceeding business and corporate goals and to increase total return to stockholders;

provide a total compensation program where a significant portion of compensation is linked to both short-term and long-term corporate performance and the achievement of individual performance objectives;

align the financial interests of the management team with EPIX s financial interests and those of its stockholders; and

emphasize reward for performance at the individual, team and corporate levels.

Base Salary

Each fiscal year, the compensation committee establishes base salaries for individual executive officers based upon (a) industry and peer group surveys prepared by independent consultants, (b) the responsibilities, scope and complexity of each position, (c) the individual s tenure in the position and (d) performance judgments as to each individual s past and expected future contributions. The performance of the companies surveyed is not considered by the compensation committee. The Chief Executive Officer recommends the base salary amount for each officer other than himself. The compensation committee then reviews with the Chief Executive Officer and approves, with appropriate modifications, an annual base salary plan for EPIX s executive officers other than the Chief Executive Officer.

In general, the compensation committee reviews and fixes the base salary of the Chief Executive Officer based on comparable competitive compensation data as well as the compensation committee s assessment of such officer s past performance and its expectations as to such officer s future contributions to EPIX s leadership. For 2005, the base salary of Mr. Webb, EPIX s Chief Executive Officer through September 14, 2005, was increased to $350,301 from $336,828. In connection with Mr. Webb s departure, Mr. Astrue was appointed Interim Chief Executive Officer, effective September 14, 2005, pursuant to an employment agreement providing for a base annual salary of $400,000. Mr. Astrue resigned as Interim Chief Executive Officer effective May 5, 2006.

Annual Bonus

Beginning in 1998, EPIX started a formal short-term incentive plan. EPIX s executive officers are eligible for an annual cash bonus, which is based primarily on corporate achievements and individual performance objectives that are established at the beginning of each year. The targeted bonus level for the

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Chief Executive Officer is 35% of annual salary. After the completion of the year, the compensation committee reviews the attainment of corporate and individual objectives and awards bonuses in the first quarter of the subsequent year, based on the extent to which corporate objectives were met or exceeded and individual contributions to the EPIX s overall performance.

Equity-Based Long-Term Incentive Compensation

Long-term incentives for EPIX s employees are provided through stock option grants under EPIX s Amended and Restated 1992 Equity Incentive Plan, or the Equity Plan, which are generally provided through initial stock option grants at the date of hire, and periodic additional grants. The option grants are intended to motivate the executive officers to improve EPIX s long-term performance and to align the financial interests of the management team with EPIX s financial interests and those of EPIX s stockholders. Awards take into account each officer s scope of responsibility and specific assignments, strategic and operational goals applicable to the officer, anticipated performance and contributions of the officer and competitive market data for similar positions. Options are granted with an exercise price equal to the fair market value of EPIX s common stock on the date of grant. The standard vesting schedule provides that a portion of the shares subject to each option vest and become exercisable annually over a five-year period. In 2005, Mr. Webb received an option to purchase 50,000 shares of EPIX s common stock, which in connection with his departure from EPIX, have been cancelled. Mr. Astrue did not receive any options to purchase EPIX common stock.

Compliance with Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, disallows a tax deduction to public companies for certain compensation in excess of $1.0 million paid to each of EPIX s Chief Executive Officer and its other most highly compensated executive officers. EPIX does not believe that Section 162(m) will generally have an effect on it because of the current and anticipated compensation levels of its executive officers and Chief Executive Officer. However, the compensation committee intends to periodically review the potential consequences of Section 162(m) and may structure the annual cash incentive awards under EPIX s annual incentive plan to comply with certain exemptions provided in Section 162(m) for certain performance-based compensation. EPIX s Equity Plan is currently structured to comply with such exemptions so that stock options and other awards under such plan to its executive officers will be tax deductible under Section 162(m).

The compensation committee reserves the authority to award non-deductible compensation in other circumstances as it deems appropriate. Further, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, notwithstanding EPIX s efforts, compensation intended by EPIX to satisfy the requirements for deductibility under Section 162(m) may not, in fact, do so.

Members of the EPIX Compensation Committee:

CHRISTOPHER F.O. GABRIELI (CHAIRMAN)
MARK LEUCHTENBERGER
GREGORY D. PHELPS

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Report of the Audit Committee of the EPIX Board of Directors

The audit committee of the EPIX board of directors, which consists entirely of directors who meet the independence and experience requirements of The NASDAQ Global Market, has furnished the following report:

The audit committee assists the EPIX board of directors in overseeing and monitoring the integrity of EPIX s financial reporting process, compliance with legal and regulatory requirements and the quality of internal and external audit processes. The audit committee s role and responsibilities are set forth in the audit committee s charter adopted by the EPIX board of directors, which was included in EPIX s proxy statement for the 2004 Annual Meeting as Appendix A. The audit committee reviews and reassesses its charter annually and recommends any changes to the EPIX board of directors for approval. The audit committee is responsible for overseeing EPIX s overall financial reporting process. In fulfilling its responsibilities for the financial statements for the fiscal year ended December 31, 2005, the audit committee took the following actions:

Reviewed and discussed the audited financial statements and the effectiveness of internal controls on financial reporting for the year ended December 31, 2005 with management and Ernst & Young LLP, EPIX s independent auditors;

Discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit; and

Received written disclosures and the letter from Ernst & Young LLP regarding its independence as required by Independence Standards Board Standard No. 1. The audit committee further discussed with Ernst & Young LLP their independence. The audit committee also considered the status of pending litigation, taxation matters and other areas of oversight relating to the financial reporting and audit process that the committee determined appropriate.

Based on the audit committee s review of the audited financial statements and discussions with management and Ernst & Young LLP, the audit committee recommended to the EPIX board of directors that the audited financial statements be included in EPIX s Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission.

Members of the EPIX Audit Committee:

PETER WIRTH (CHAIRMAN)
CHRISTOPHER F.O. GABRIELI
MARK LEUCHTENBERGER

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Section 16(a) Beneficial Ownership Reporting Compliance

EPIX s records reflect that all reports which were required to be filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, in 2005 were filed on a timely basis.

Certain Relationships and Related Transactions

EPIX had an employment agreement with Michael J. Astrue and currently has a consulting agreement with Mr. Astrue which are described under Current Management of EPIX and Related Information Employment and Severance Agreements.

EPIX has a severance and incentive agreement with Andrew C.G. Uprichard, M.D., which is described under Current Management of EPIX and Related Information Employment and Severance Agreements.

In 2005, EPIX engaged Michael Gilman, Ph.D., a member of the EPIX board of directors, to serve as a consultant in connection with the evaluation of the merger. Pursuant to the terms of Dr. Gilman s consulting agreement, EPIX paid Dr. Gilman approximately $22,950 in 2005 for his services and has paid him an additional $30,220 as of June 28, 2006. Upon completion of Dr. Gilman s remaining consulting services in connection with the merger, his relationship with EPIX as a consultant will end.

In connection with Michael D. Webb s resignation as Chief Executive Officer and member of the EPIX board of directors, effective September 14, 2005, EPIX entered into a separation agreement with Mr. Webb. Pursuant to this agreement Mr. Webb served as a consultant to EPIX until December 31, 2005 on an independent contractor basis and is entitled to receive severance pay in the amount of $175,150.50, payable in six approximately equal monthly payments. In fiscal year 2005, EPIX paid Mr. Webb $102,082 for his fees and expenses in connection with this consultancy.

Code of Conduct and Ethics

EPIX has adopted a code of conduct and ethics that applies to all of its employees, including its Chief Executive Officer and Chief Financial and Accounting Officer. The text of the code of conduct and ethics is posted on EPIX s website at www.epixpharma.com. Disclosure regarding any amendments to, or waivers from, provisions of the code of conduct and ethics that apply to EPIX s directors, Principal Executive and Financial Officers will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is then permitted by the rules of The NASDAQ Global Market.

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CURRENT MANAGEMENT OF PREDIX AND RELATED INFORMATION

Compensation of Predix Directors

Currently, non-employee directors of Predix who are not affiliated with any principal stockholder receive a fee of $10,000 per year, payable quarterly, as compensation for service on the Predix board of directors and its committees. The Chairman of the Predix board of directors currently receives $30,000 per year, payable quarterly. In addition, each such director receives $1,250 for each board or committee meeting attended in person and $500 for each such meeting attended via teleconference. All of Predix s directors are also eligible to receive stock and option grants under Predix s 2003 Stock Incentive Plan.

Since January 1, 2005, Predix s non-employee directors have received the following compensation for service on Predix s board of directors and committees thereof:

Director	Cash	Stock Options(1)
Frederick Frank	$ 37,500	
Julian Adams, Ph.D.	$ 12,500	3,666(2)
David Collier, M.D.		1,890(3)
Yigal Erlich		
Patrick J. Fortune, Ph.D.		1,890(3)
Ted Love, M.D.	$ 15,000	3,666(2)
Joel Martin, Ph.D.		1,890(3)
Jonathan Silverstein		
Ian F. Smith, CPA, ACA	$ 10,084	5,555(4)

(1) All options vested immediately upon grant and have a term of ten years. In the event that the director ceases to serve as a director, the stock option will terminate on the later of 30 days after the recipient ceases to serve as a director or August 8, 2007, except (a) in the case of death or disability, in which event the option will terminate one year from the date of the director s death or disability or (b) in the event that the non-employee director is terminated for cause, in which event the option will terminate immediately.

(2) Options were granted on April 28, 2005 at an exercise price of $0.81 per share.

(3) Options were granted on April 26, 2005 at an exercise price of $0.81 per share.

(4) Options were granted on May 10, 2005 at an exercise price of $0.81 per share.

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Compensation of Predix s Executives

Summary Compensation Table

The following summary compensation table sets forth summary information as to compensation received by (i) Predix s President and Chief Executive Officer, (ii) Predix s four other most highly compensated executive officers who were employed by Predix as of December 31, 2005 and earned more than $100,000 in salary and bonus for the year ended December 31, 2005 and are expected to remain executive officers of the combined company and (iii) an executive officer who meets the foregoing requirements of clause (ii) but who is not expected to be an executive officer of the combined company.

Name and Principal Position	Year	Salary	Bonus	Long Term Compensation Awards: Securities Underlying Options (#)	All Other Compensation(1)
Michael G. Kauffman, M.D., Ph.D. President and Chief Executive Officer	2005	$ 320,000	$ 130,000	337,227	
Chen Schor, CPA Chief Business Officer	2005	$ 234,999	$ 55,000	132,091	
Silvia Noiman, Ph.D.(2) Senior Vice President of Pipeline Management, General Manager Israel	2005	$ 166,846	$ 50,000	103,106	$ 71,324
Oren Becker, Ph.D.(2) Chief Scientific Officer	2005	$ 166,554	$ 50,000	97,377	$ 71,126
Kimberlee C. Drapkin, CPA(3) Chief Financial Officer	2005	$ 146,320	$ 50,000	144,996	
Stephen R. Donahue, M.D.(4) Vice President of Clinical and Regulatory Affairs	2005	$ 252,500	$ 30,000	60,222	$ 33,238

(1) Excludes medical, group life insurance and certain other benefits received by the named executive officers that are available generally to all Predix s salaried employees and certain perquisites and other personal benefits received by the named executive officers which do not exceed the lesser of $50,000 or 10% of any such named executive officer s total annual compensation reported in this table.

(2) Drs. Noiman and Becker are employed through Predix s subsidiary, Predix Pharmaceuticals Ltd. and are paid in Israeli shekels. Dollar amounts used in this table are based upon the exchange rate on December 30, 2005. All Other Compensation for Dr. Noiman represents a car allowance of $12,330 and Israeli social benefits of $58,994. All Other Compensation for Dr. Becker represents a car allowance of $13,367 and Israeli social benefits of $57,759.

(3) Ms. Drapkin joined Predix on February 22, 2005.

(4) Upon consummation of the merger, Dr. Donahue will remain the Vice President of Clinical and Regulatory Affairs of the combined company, but will no longer be deemed an executive officer of the combined company.

All Other Compensation for Dr. Donahue represents reimbursement for relocation expenses.

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Option Grants in 2005

The following table provides information concerning stock option grants to each of our named executive officers during the year ended December 31, 2005.

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price per Year	Expiration Date	Potential Realizable Value at Assumed Rated of Stock Price Appreciation for Option Term(1) 5% ($)	10% ($)
Michael G. Kauffman, M.D., Ph.D.	253,689	20.7	$ 0.810	1/18/2015	129,457	326,726
	83,538	6.8	1.440	4/28/2015	565,987	970,177
Chen Schor, CPA	115,043	9.4	0.810	1/18/2015	58,706	148,164
	35,294	2.9	1.440	4/28/2015	232,009	409,890
Silvia Noiman, Ph.D.	89,628	7.3	0.810	1/18/2015	45,737	115,431
	13,478	1.1	1.440	4/28/2015	91,316	156,528
Oren Becker, Ph.D.	84,133	6.9	0.810	1/18/2015	42,933	108,355
	13,244	1.1	1.440	4/28/2015	89,731	153,811
Kimberlee C. Drapkin, CPA	98,445	8.0	0.810	3/18/2015	50,236	126,787
	46,551	3.8	1.440	4/28/2015	315,392	540,625
Stephen R. Donahue, M.D.	36,277	3.0	0.810	3/18/2015	18,501	46,721
	23,945	2.0	1.440	4/28/2015	162,232	278,088

(1) There is no established trading market for Predix shares. The option grants listed above were made under the Predix 2003 Stock Incentive Plan at exercise prices equal to the fair market value of Predix common stock at the date of grant, as determined by the Predix board of directors. The potential realizable value, if applicable, is calculated based on the term of the option at its time of grant. The potential realizable value assumes the fair market price of option grants was $0.810 on January 18, 2005 and was $5.04 on March 18, 2005 and April 28, 2005, which is the fair market value subsequently assessed for such stock option grants for accounting purposes to determine compensation expense reportable under Accounting Principles Board Opinion No. 25. These numbers are calculated based on Securities and Exchange Commission requirements and do not reflect Predix s projection or estimate of future stock price growth.

Aggregate Option Exercises in 2005 and Values at December 31, 2005

	Shares Acquired on	Number of Securities Underlying Unexercised Options at December 31, 2005	Value of Unexercised in the Money Options at December 31, 2005(1)

Name	Exercise	Exercisable	Unexercisable	Exercisable ($)	Unexercisable ($)
Michael G. Kauffman, M.D., Ph.D.	148,829	284,346	310,333	1,423,720	1,553,837
Chen Schor, CPA	83,392	57,496	193,717	287,882	969,941
Silvia Noiman, Ph.D.	0	194,822	83,274	975,474	416,953
Oren Becker, Ph.D.	0	183,116	78,251	916,862	391,803
Kimberlee C. Drapkin, CPA	0	34,419	110,557	172,336	553,559
Stephen R. Donahue, M.D.	0	33,260	87,569	166,533	438,458

(1) There is no established trading market for Predix shares. Determined by multiplying the product of EPIX s price per share on December 30, 2005 ($4.04) and the exchange ratio of 1.239411, which is subject to adjustment to account for the reverse stock split if implemented, by the number of shares exercisable and not exercisable on December 31, 2005.

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Employment Agreements

Pursuant to an employment agreement dated as of August 8, 2003 between Predix and Michael G. Kauffman, M.D., Ph.D., Predix employs Dr. Kauffman as its President and Chief Executive Officer on an at-will basis. Under this agreement, Dr. Kauffman s base salary is subject to review and adjustment annually or at such other times as Predix determines. However, Predix cannot decrease Dr. Kauffman s base salary unless the base salary of all of Predix s similarly situated executives is decreased. Dr. Kauffman is also eligible to receive performance-based bonuses, the timing and amount of which are at Predix s discretion. Pursuant to the agreement, Predix granted Dr. Kauffman 59 shares of Predix common stock, with a fair market value of $1.80 per share, at no cost to Dr. Kauffman, an option to purchase 23,976 shares of Predix common stock at an exercise price of $1.80 per share, which vests as to 25% of the shares on each of September 23, 2003, September 23, 2004, September 23, 2005 and September 23, 2006, and an option to purchase 18,080 shares of Predix common stock at an exercise price of $1.80 per share, which vests as to 25% of the shares on each of July 31, 2004, July 31, 2005, July 31, 2006 and July 31, 2007. In the event Predix terminates Dr. Kauffman s employment without cause, as defined in the agreement, Dr. Kauffman is entitled to receive his then-current base salary for a period of six months. Under the agreement, Dr. Kauffman has agreed not to compete with Predix for a period of six months after the termination of his employment and not to solicit Predix s customers or employees or interfere with any of its business relationships for a period of 12 months after the termination of his employment. The agreement also contains provisions relating to the protection of Predix s confidential information and the assignment of inventions.

Pursuant to an employment agreement dated as of November 23, 2003 between Predix and Chen Schor, CPA, Predix employs Mr. Schor as its Chief Business Officer on an at-will basis. Under this agreement, Mr. Schor s base salary is subject to review and adjustment annually or at such other times as Predix determines. However, Predix cannot decrease Mr. Schor s base salary unless the base salary of all of Predix s similarly situated executives is decreased. Under the agreement, Predix paid Mr. Schor a signing bonus of $20,000 and he is also eligible to receive performance-based bonuses, the timing and amount of which are at Predix s discretion. Pursuant to the agreement, Predix granted Mr. Schor an option to purchase 19,444 shares of Predix common stock at an exercise price of $1.80 per share, which vests as to 25% of the shares on each of January 16, 2004, January 16, 2005, January 16, 2006 and January 16, 2007. In the event Predix terminates Mr. Schor s employment without cause, as defined in the agreement, Mr. Schor is entitled to receive his then-current base salary for a period of six months. Under the agreement, Mr. Schor has agreed not to compete with Predix for a period of six months after the termination of his employment and not to solicit Predix s customers or employees or interfere with any of Predix s business relationships for a period of 12 months after the termination of his employment. The agreement also contains provisions relating to the protection of Predix s confidential information and the assignment of inventions.

Pursuant to an employment agreement dated as of October 31, 2000, as amended on April 3, 2001, August 29, 2001, May 12, 2003, August 8, 2003, June 18, 2004 and June 9, 2005, between Predix Pharmaceuticals Ltd., a wholly-owned subsidiary of Predix, and Silvia Noiman, Ph.D., Predix employs Dr. Noiman as its Senior Vice President of Pipeline Management and General Manager, Israel. Under this agreement, Dr. Noiman s base salary is subject to Predix s review and adjustment annually. Dr. Noiman is also eligible to receive bonuses, the timing, type and amount of which are at Predix s discretion. Under the agreement, Predix must provide Dr. Noiman managers insurance, disability insurance, a Keren Hishtalmut fund and any severance to which she may be entitled under Israeli law. Pursuant to the agreement, Predix granted Dr. Noiman 3,641 shares of Predix common stock, with a fair market value of $1.80 per share, at no cost to Dr. Noiman, a fully vested option to purchase 6,104 shares of Predix common stock at an exercise price of $1.80 per share and an option to purchase 12,735 shares of Predix common stock at an exercise price of $1.80 per share, which vests as to 3,183 shares on each of July 31, 2004, July 31, 2005, July 31, 2006 and July 31, 2007. Under the agreement, Dr. Noiman has agreed not to compete with Predix and not to solicit Predix s employees or consultants for a period of 18 months after the termination of her employment. The agreement also contains provisions relating to the protection of

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Predix s confidential information and the assignment of inventions. The agreement continues until December 31, 2005 and automatically renews for additional one-year terms, unless earlier terminated. Predix may terminate the agreement for cause, as defined in the agreement, or without cause upon three months notice. Dr. Noiman may terminate the agreement upon three months notice. In addition, upon a merger, consolidation or acquisition of Predix Pharmaceuticals Ltd. or if Predix sells, leases or otherwise disposes of all or substantially all of the assets of Predix Pharmaceuticals Ltd., Predix must extend Dr. Noiman s employment with Predix for a period of six months or provide her six months compensation.

Pursuant to an employment agreement dated as of October 31, 2000, as amended on April 3, 2001, August 29, 2001, May 12, 2003, August 8, 2003, and June 9, 2005, between Predix Pharmaceuticals Ltd., a wholly-owned subsidiary of Predix, and Oren Becker, Ph.D., Predix employs Dr. Becker as its Chief Scientific Officer. Under this agreement, Dr. Becker s base salary is subject to Predix s review and adjustment annually. Dr. Becker is also eligible to receive bonuses, the timing, type and amount of which are at Predix s discretion. Under the agreement, Predix must provide Dr. Becker managers insurance, disability insurance, a Keren Hishtalmut fund and any severance to which he may be entitled under Israeli law. Pursuant to the agreement, Predix granted Dr. Becker 3,641 shares of Predix common stock, with a fair market value of $1.80 per share, at no cost to Dr. Becker, a fully vested option to purchase 6,104 shares of Predix common stock at an exercise price of $1.80 per share and an option to purchase 12,735 shares of Predix common stock at an exercise price of $1.80 per share, which vests as to 3,183 shares on each of July 31, 2004, July 31, 2005, July 31, 2006 and July 31, 2007. Under the agreement, Dr. Becker has agreed not to compete with Predix and not to solicit Predix s employees or consultants for a period of 18 months after the termination of his employment. The agreement also contains provisions relating to the protection of Predix s confidential information and the assignment of inventions. The agreement continues until December 31, 2006 and automatically renews for additional one-year terms, unless earlier terminated. Predix may terminate the agreement for cause, as defined in the agreement, or without cause upon three months notice. Dr. Becker may terminate the agreement upon three months notice. In addition, upon a merger, consolidation or acquisition of Predix Pharmaceuticals Ltd. or if Predix sells, leases or otherwise disposes of all or substantially all of the assets of Predix Pharmaceuticals Ltd., Predix must extend Dr. Becker s employment with Predix for a period of six months or provide him six months compensation.

Pursuant to an employment agreement dated as of February 8, 2005, as amended on June 1, 2005 between Predix and Kimberlee C. Drapkin, CPA, Predix employs Ms. Drapkin as its Chief Financial Officer on an at-will basis. Under this agreement, Ms. Drapkin s base salary is subject to review and adjustment annually or at such other times as Predix determines. However, Predix cannot decrease Ms. Drapkin s base salary unless the base salary of all of Predix s similarly situated executives is decreased. Under the agreement, Predix paid Ms. Drapkin a signing bonus of $35,000 and she is also eligible to receive performance-based bonuses, the timing and amount of which are at Predix s discretion. Pursuant to the agreement, Predix granted Ms. Drapkin an option to purchase 98,445 shares of Predix common stock at an exercise price of $0.81 per share, which vests over a four-year period with 25% of the shares vesting on February 22, 2006, and the remainder in equal monthly installments thereafter. In the event Predix terminates Ms. Drapkin s employment without cause, as defined in the agreement, Ms. Drapkin is entitled to receive her then-current base salary for a period of six months. Under the agreement, Ms. Drapkin has agreed not to compete with Predix for a period of two years after the termination of her employment and not to solicit Predix s customers or employees or interfere with any of Predix s business relationships for a period of two years after the termination of her employment. The agreement also contains provisions relating to the protection of Predix s confidential information and the assignment of inventions.

Pursuant to an employment agreement dated as of September 27, 2004 between Predix and Stephen R. Donahue, M.D., Predix employs Dr. Donahue as its Vice President of clinical and regulatory affairs on an at-will basis. Under this agreement, Dr. Donahue s base salary is subject to review and adjustment annually or at such other times as Predix determines. However, Predix cannot decrease Dr. Donahue s base salary unless the base salary of all of Predix s similarly situated executives is decreased. Under the agreement, Predix paid Dr. Donahue a signing bonus of $25,000 and he is also eligible to receive

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performance-based bonuses, the timing and amount of which are at Predix s discretion. Pursuant to the agreement, Predix granted Dr. Donahue an option to purchase 60,607 shares of Predix common stock at an exercise price of $0.81 per share, which vests as to 6.25% of the shares every three months beginning three months from September 24, 2004. In the event Predix terminates Dr. Donahue s employment without cause, as defined in the agreement, Dr. Donahue is entitled to receive his then-current base salary for a period of six months. Under the agreement, Dr. Donahue has agreed not to compete with Predix for a period of one year after the termination of his employment and not to solicit Predix s customers or employees or interfere with any of Predix s business relationships for a period of one year after the termination of his employment. The agreement also contains provisions relating to the protection of Predix s confidential information and the assignment of inventions.

Each option agreement between Predix and Drs. Kauffman, Becker, Noiman and Donahue, Mr. Schor and Ms. Drapkin provides that their options shall become immediately exercisable in full if, after a reorganization event, as defined in Predix s 2003 Stock Incentive Plan, the acquiring or succeeding entity assumes the option or substitute equivalent securities for the option, and (a) the employee is terminated by the acquiring or succeeding entity without cause, as defined in each option agreement, within 12 months of the consummation of such reorganization event or (b) the employee terminates his or her employment with the acquiring or succeeding entity within 12 months of the consummation of such reorganization event due to a material adverse change in the employee s duties, authority or responsibilities which causes the employee s position with the acquiring or succeeding entity to become of less responsibility or authority.

Stock Plans

Amended and Restated 2003 Stock Incentive Plan

Predix s 2003 Stock Incentive Plan was adopted by the Predix board of directors in August 2003, and approved by Predix s stockholders in August 2003. In August 2004 and April 2005, the Predix board of directors and Predix s stockholders approved amendments to Predix s 2003 Stock Incentive Plan and in September 2005, this plan was amended and restated by the Predix board of directors and Predix s stockholders. Under this plan, Predix may grant incentive stock options, nonqualified stock options and restricted stock and other stock based awards. Pursuant to this plan, Predix has created an Israeli sub-plan to grant options to those persons who are residents of the State of Israel and who are deemed to be residents of the State of Israel for tax purposes. A maximum of 4,071,443 shares of Predix common stock are authorized for issuance under this plan.

In accordance with the terms of this plan, the Predix board of directors has authorized Predix s compensation committee to administer the plan. In accordance with the provisions of this plan, the Predix board of directors or compensation committee will determine the terms of options and other awards, including:

- the determination of which employees, directors, consultants and other advisors will be granted options and other awards;
- the number of shares subject to options and other awards;
- the exercise price of each option which may not be less than fair market value on the date of grant;
- the schedule upon which options become exercisable;
- the termination or cancellation provisions applicable to options; the terms and conditions of other awards, including conditions for repurchase, termination or cancellation, issue price and repurchase price; and
- all other terms and conditions upon which each award may be granted in accordance with this plan.

No participant may receive awards for over 203,794 shares of Predix common stock in any fiscal year. The Predix board of directors or any committee to which the Predix board of directors delegates authority may, with the consent of the affected plan participants, amend outstanding awards consistent with the

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terms of this plan. Upon a merger or other reorganization event, the Predix board of directors shall provide that all outstanding options shall be assumed or substituted by the successor corporation. If the successor corporation does not agree to assume or substitute the options, then the Predix board of directors shall provide that all outstanding options will become exercisable in full as of a specified time prior to the reorganization event and unexercised options shall terminate immediately prior to the reorganization event. Notwithstanding the foregoing, in the event of a reorganization event in which the successor corporation does not agree to assume or substitute the options and pursuant to which holders of Predix common stock will receive a cash payment for each share surrendered then the Predix board of directors may instead provide that all outstanding options terminate upon consummation of the reorganization event and each participant shall receive, in exchange therefore, a cash payment equal to the difference, if any, between the merger price times the number of shares of Predix common stock subject to such outstanding options and the aggregate exercise price of all such outstanding options.

Upon a merger or other reorganization event, any securities, cash or other property received in exchange for shares of restricted stock shall continue to be governed by the provisions of any restricted stock agreement pursuant to which such restricted stock was issued. As of June 28, 2006, 475,836 shares of Predix common stock have been issued pursuant to options and stock awards granted under this plan, 2,284,589 shares of Predix common stock are subject to outstanding options and 1,311,018 shares of Predix common stock are available for future grant.

Physiome Sciences, Inc. 1997 Stock Option Plan

Predix has terminated its 1997 Stock Option Plan under which options to purchase 4,482 shares of Predix common stock are currently outstanding. Although no more options may be granted under this terminated plan, the terms of this plan continue to apply to all such outstanding options. The Predix board of directors or any committee to which the Predix board of directors delegates authority may, with the consent of the affected plan participants, amend outstanding awards consistent with the terms of the 1997 Stock Option Plan.

401(k) Plan

In 2003, Predix adopted a 401(k) Plan covering all qualified U.S. employees of Predix. Participants may contribute up to 25% of their annual compensation, subject to statutory limitations, and Predix may declare discretionary matching contributions to this 401(k) Plan. Predix s matching contribution for the year ended December 31, 2003 totaled $2,000 and is fully vested. Predix did not match any contributions for the years ended December 31, 2004 or December 31, 2005.

Certain Transactions With Management and Affiliates

The following is a description of the transactions Predix has engaged in since January 1, 2003 with its directors, officers and beneficial owners of more than five percent of its voting securities and their affiliates.

Recapitalization and Acquisition of Predix Pharmaceuticals Ltd.

In August 2003, Predix effected a recapitalization of its capital stock and acquired Predix Pharmaceuticals Ltd., an Israeli corporation. In connection with the recapitalization Predix:

created a new class of Class A common stock, or the Class A common stock;

reclassified all outstanding shares of its then existing Series A convertible preferred stock into a newly created Series A convertible preferred stock, or the New Series A stock , on a 1-for-0.022104 basis;

reclassified all outstanding shares of its then existing Series B convertible preferred stock into New Series A stock on a 1-for-0.035661 basis;

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reclassified all outstanding shares of its then existing Series C convertible preferred stock into New Series A stock on a 1-for-0.084149 basis; and

reclassified all outstanding shares of its then existing Series D convertible preferred stock into a newly created Series B convertible preferred stock, or the New Series B stock, on a 1-for-0.123774 basis.

In connection with this recapitalization, the following directors, officers, beneficial owners of more than five percent of Predix voting securities and their affiliates received the following shares of capital stock:

Eaton Vance Worldwide Health Sciences Portfolio and Finsbury Worldwide Pharma, each an affiliate of OrbiMed Advisors LLC, a beneficial owner of more than five percent of Predix s common stock, received an aggregate of 103,360 shares of New Series B stock in exchange for an aggregate of 835,072 shares of Predix s then existing Series D convertible preferred stock. Jonathan Silverstein, a member of the Predix board of directors, is a general partner at OrbiMed Advisors LLC.

PA International Limited, a beneficial owner of more than five percent of Predix s common stock, received 216,125 shares of New Series A stock in exchange for 2,568,371 shares of Predix s then existing Series C convertible preferred stock.

SR One Limited, a beneficial owner of more than five percent of Predix s common stock, received 43,225 shares of New Series A stock in exchange for 1,212,122 shares of Predix s then existing Series B convertible preferred stock and 28,657 shares of Series B Stock in exchange for 231,528 shares of Predix s then existing Series D convertible preferred stock.

Predix acquired Predix Pharmaceuticals Ltd. through a share exchange in which Predix purchased all of the outstanding capital stock of Predix Pharmaceuticals Ltd. and immediately thereafter, the former stockholders of Predix Pharmaceuticals Ltd. used the proceeds from this stock purchase to purchase shares of Predix capital stock. In connection with this share exchange, Predix purchased an aggregate of 15,842,274 preferred shares and 100,000 ordinary shares of Predix Pharmaceuticals Ltd. for an aggregate cash equivalent purchase price of approximately $7.7 million, including the following from directors, officers, beneficial owners of more than five percent of Predix s voting securities and their affiliates:

Name	Number of Preferred Shares Purchased	Number of Ordinary Shares Purchased	Equivalent Cash Purchase Price
Silvia Noiman, Ph.D.(1)		24,000	$ 14,692
Oren Becker, Ph.D.(2)		24,000	14,692
Frederick Frank(3)	121,556		58,280
Yozma II (Israel) L.P.(4)	1,610,158		772,110
YVC-Yozma Management & Investments Ltd, as trustees for Yozma II (BVI) L.P.(4)	2,744,594		1,316,110
PCM Venture Capital L.P.(4)	1,463,786		701,930
OrbiMed Associates LLC(5)	176,636		84,690
UBS PW Juniper Crossover Fund LLC(5)	2,471,433		1,185,130
Caduceus Private Investments, L.P.(5)	7,254,111		3,478,570
Total	15,842,274	48,000	$ 7,262,204

(1) Dr. Noiman is Predix s Senior Vice President of Pipeline Management and General Manager of Israel operations.

(2) Dr. Becker is Predix s Chief Scientific Officer.

(3) Mr. Frank is Chairman of the Predix board of directors.

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(4) Yozma II (Israel) L.P., YVC-Yozma Management & Investment Ltd, as trustees for Yozma II (BVI) L.P. and PCM Venture Capital L.P. are affiliates of the Yozma Group, a beneficial owner of more than five percent of Predix s voting securities. Yigal Erlich, a member of the Predix board of directors, is the founder and managing partner of the Yozma Group.

(5) OrbiMed Associates LLC, UBS PW Juniper Crossover Fund LLC and Caduceus Private Investments, L.P. are affiliates of OrbiMed Advisors LLC. In connection with Predix s acquisition of Predix Pharmaceuticals Ltd., Predix entered into an agreement with OrbiMed Associates LLC, UBS PW Juniper Crossover Fund LLC and Caduceus Private Investments, L.P., or collectively, the OrbiMed Entities, pursuant to which the OrbiMed Entities agreed to indemnify Predix against any and all Israeli capital gains taxes which Predix may be required to pay in connection with Israeli withholding tax obligations in connection with Predix s purchase of the shares of Predix Pharmaceuticals Ltd. owned by the OrbiMed Entities. This agreement has a term of six years.

In connection with this share exchange, Predix sold an aggregate of 3,400 shares of Predix common stock, 587,418 shares of New Series A stock and 172,264 shares of New Series B stock for an aggregate cash equivalent sale price of approximately $7.7 million, including the following to directors, officers, beneficial owners of more than five percent of Predix s voting securities and their affiliates:

Name	Number of Shares of Predix Common Stock Sold(1)	Number of Shares of New Series A Stock Sold(1)	Number of Shares of New Series B Stock Sold(1)	Equivalent Cash Purchase Price
Silvia Noiman, Ph.D.	816			$ 14,692
Oren Becker, Ph.D.	816			14,692
Frederick Frank		4,507	1,321	58,280
Yozma II (Israel) L.P.		59,703	17,508	772,110
YVC-Yozma Management & Investments Ltd, as trustees for Yozma II (BVI) L.P.		101,767	29,844	1,316,110
PCM Venture Capital L.P.		54,276	15,917	701,930
OrbiMed Associates LLC		6,549	1,920	84,690
UBS PW Juniper Crossover Fund LLC		91,639	26,874	1,185,130
Caduceus Private Investments, L.P.		268,977	78,880	3,478,570
Total	1,632	587,418	172,264	$ 7,626,204

(1) Each share of New Series A stock and New Series B stock was convertible into ten shares of Predix common stock. In August 2004, the New Series A stock and New Series B stock were converted into shares of Predix common stock or Series AB preferred stock in connection with the initial issuance of Predix s Series C preferred stock and the recapitalization as described in further detail below.

In connection with the recapitalization and the acquisition of Predix Pharmaceuticals Ltd., each holder of Predix preferred stock and each holder of preferred stock of Predix Pharmaceuticals Ltd. received a transaction warrant and a funding warrant. Each transaction warrant entitled the holder to purchase its pro rata share of up to 1,000,000 shares of New Series B stock prior to August 8, 2004 at an amended exercise price of $5.00 per share. Each funding warrant

entitled the holder to purchase its pro rata share of shares of Predix capital stock issued in a third-party financing. The funding warrants were exercisable for a period of five years; provided, however, that at any time a funding warrant was entitled to be exercised, but was not exercised, it terminated. All of these transaction warrants and all but one of the funding warrants have been terminated, exercised or expired without exercise. Predix issued transaction

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warrants and funding warrants to the following directors, officers, beneficial owners of more than five percent of its voting securities and their affiliates:

Name	Maximum Shares of New Series B Stock Purchasable with Transaction Warrant	Pro Rata Portion of Subsequent Financings Under Funding Warrant
Stockholders of Predix Pharmaceuticals Ltd.		
Frederick Frank	2,301	0.23%
Yozma II (Israel) L.P.	30,491	3.05
YVC-Yozma Management & Investments Ltd, as trustees for Yozma II (BVI) L.P.	51,974	5.20
PCM Venture Capital L.P.	27,719	2.77
OrbiMed Associates LLC	3,344	0.33
UBS PW Juniper Crossover Fund LLC	46,801	4.68
Caduceus Private Investments, L.P.	137,372	13.74
Stockholders of Predix		
Eaton Vance Worldwide Health Sciences Portfolio	25,511	2.55
Finsbury Worldwide Pharma	15,306	1.53
PA International Limited	85,349	8.53
SR One Limited	28,386	2.84
Total	454,554	45.50%

Upon consummation of the acquisition of Predix Pharmaceuticals Ltd., Predix granted options to purchase an aggregate of 144,256 shares of Class A common stock at an exercise price of $1.80 per share and an aggregate of 7,341 shares of Class A common stock having a fair market value of $1.80 per share, at no cost, to certain directors, officers and employees of the combined company, including the following directors, officers, beneficial owners of more than five percent of Predix s voting securities and their affiliates:

Name	Shares of Class A Common Stock(1)	Options to Purchase Class A Common Stock(1)
Michael G. Kauffman, M.D., Ph.D.(2)	59	42,056
Silvia Noiman, Ph.D.	3,641	18,839
Oren Becker, Ph.D.	3,641	
Frederick Frank		397
Total	7,341	90,812

(1)

In August 2004, the Class A common stock was converted into shares of Predix common stock in connection with the initial issuance of the Series C preferred stock and the recapitalization as described in further detail below.

(2) Dr. Kauffman is Predix s President and Chief Executive Officer and a member of the Predix board of directors.

Issuances of Series C Preferred Stock and Recapitalization

On August 9, 2004, Predix effected a recapitalization of its capital stock and raised an aggregate of $14,710,540 through the sale and issuance of shares of its Series C preferred stock in a private financing. In connection with this financing, Predix issued an aggregate of 66,753,820 shares of Series C preferred stock to 42 of Predix s then existing stockholders and their affiliates at a purchase price of $0.22037 per

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share, including the following to directors, officers, beneficial owners of more than five percent of Predix s voting securities and their affiliates:

Name	Shares of Series C Preferred Stock	Aggregate Purchase Price
SR One Limited	22,689,112	$ 5,000,000
Michael G. Kauffman, M.D., Ph.D.	4,538	1,000
Frederick Frank	226,891	50,000
OrbiMed Associates LLC	337,970	74,478
UBS PW Juniper Crossover Fund LLC	4,729,409	1,042,220
Caduceus Private Investments, L.P.	13,881,629	3,059,095
Eaton Vance Worldwide Health Sciences Portfolio	2,337,565	515,129
Hare and Co. FAO: Finsbury Worldwide Pharmaceutical Trust	1,402,539	309,078
Yozma II (Israel) L.P.	2,692,671	593,384
Yozma Venture Capital Ltd.(1)	1,000,613	220,505
YVC-Yozma Management & Investments Ltd, as trustees for Yozma II (BVI) L.P.	4,589,826	1,011,460
PCM Venture Capital L.P.	2,447,924	539,449
Total	56,340,687	$ 12,415,798

(1) Yozma Venture Capital Ltd. is an affiliate of the Yozma Group.

The Series C preferred stock is convertible into shares of Predix common stock on a 1-for-18 basis. The purchase price per share of Series C preferred stock was the fair market value as determined by arms-length negotiations between sophisticated investors and Predix s management and the Predix board of directors.

In connection with the sale and issuance of the Series C preferred stock, Predix effected a recapitalization of its capital stock through the exchange of each share of New Series A stock and New Series B stock into shares of newly created Series AB preferred stock or Predix common stock and the reclassification of each share of Class A common stock into one share of Predix common stock. In connection with the recapitalization, Predix exchanged:

each share of New Series A stock and New Series B stock held by a stockholder that purchased at least 51 percent of its pro rata portion of Series C preferred stock sold in the financing into ten shares of newly created Series AB preferred stock (convertible on a 1-for-18 basis into shares of Predix common stock) and granted each such stockholder a warrant to purchase shares of newly created Series AB preferred stock at an exercise price of $0.01 per share prior to August 9, 2009; and

each share of New Series A stock and New Series B stock held by a stockholder that did not purchase at least 51 percent of its pro rata portion of Series C preferred stock sold in the financing into 0.5556 shares of Predix common stock.

As part of this transaction, Predix exchanged:

an aggregate of 732,347 shares of New Series A stock and an aggregate of 720,799 shares of New Series B stock for an aggregate of 14,531,460 shares of Series AB preferred stock and granted warrants to purchase an aggregate of 62,240,212 shares of Series AB preferred stock; and

an aggregate of 335,623 shares of New Series A stock and an aggregate of 743,456 shares of New Series B stock for an aggregate of 599,488 shares of Predix common stock.

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Predix directors, officers, beneficial owners of more than five percent of Predix s voting securities and their affiliates participated in this exchange as follows:

Name	Number of Shares of New Series A Stock Exchanged	Number of Shares of New Series B Stock Exchanged	Number of Shares of Predix Common Stock Issued	Number of Shares of Series AB Preferred Stock Issued	Number of Warrants to Purchase Series AB Preferred Stock Issued
SR One Limited	43,225	28,657		718,820	3,619,477
Frederick Frank	4,507	1,321		58,280	293,458
OrbiMed Associates LLC	6,549	2,791		93,400	470,297
UBS PW Juniper Crossover Fund LLC	91,639	39,061		1,307,000	6,581,142
Caduceus Private Investments, L.P.	268,977	114,650		3,836,270	19,316,785
Eaton Vance Worldwide Health Sciences Portfolio		64,600		646,000	3,252,806
Hare and Co. FAO: Finsbury Worldwide Pharmaceutical Trust		38,760		387,600	1,951,684
Yozma II (Israel) L.P.	59,703	17,508		772,110	3,887,808
Yozma Venture Capital Ltd.		28,692		286,920	1,444,729
YVC-Yozma Management & Investments Ltd, as trustees for Yozma II (BVI) L.P.	101,767	29,844		1,316,110	6,627,011
PCM Venture Capital L.P.	54,726	15,917		701,930	3,534,430
PA International Limited	216,125		120,069		
Total	847,218	381,801	120,069	10,124,440	50,979,627

As a result of this recapitalization, each option and warrant to purchase shares of Class A common stock became exercisable for the same number of shares of Predix common stock, at the same exercise price per share, for which such options and warrants were originally exercisable and each warrant exercisable for New Series A stock became exercisable for shares of Predix common stock on a 1-for-0.5556 basis.

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During the period from September 9, 2004 to January 21, 2005, Predix raised an aggregate of $25,505,742 through the sale and issuance of an aggregate of 115,740,536 additional shares of Series C preferred stock to 16 investors at a purchase price of $0.22037 per share, including the following to directors, officers, beneficial owners of more than five percent of Predix s voting securities and their affiliates:

Name	Number of Shares of Series C Preferred Stock	Aggregate Purchase Price
Astellas Venture Capital LLC(1)	15,882,380	$ 3,500,000
Boston Millennia Partners II Limited Partnership(2)	18,843,979	4,152,648
Boston Millennia Partners GmbH & Co. KG(2)	2,683,400	591,341
Boston Millennia Partners II-A Limited Partnership(2)	902,673	198,922
Strategic Advisors Fund Limited Partnership(2)	169,438	37,339
Boston Millennia Associates II Partnership(2)	89,622	19,750
Forward Ventures V, L.P.(3)	24,958,025	5,500,000
CMEA Ventures Life Sciences 2000, L.P.(4)	6,765,046	1,490,813
CMEA Ventures Life Sciences 2000, Civil Law Partnership(4)	406,787	89,644
CMEA Ventures VI, L.P.(4)	12,948,730	2,853,512
CMEA Ventures VI, GmbH & Co. K.G.(4)	299,639	66,031
PA International Limited	6,719,347	1,480,743
Total	90,669,066	$ 19,980,743

(1) Formerly known as Yamanouchi Venture Capital, LLC. Astellas Venture Capital LLC is a beneficial owner of more than five percent of Predix s voting securities.

(2) Boston Millennia Partners GmbH & Co. KG, Boston Millennia Partners II-A Limited Partnership, Strategic Advisors Fund Limited Partnership and Boston Millennia Associates II Partnership are affiliates of Boston Millennia Partners II Limited Partnership, a beneficial owner of more than five percent of Predix s voting securities. Patrick J. Fortune, Ph.D., a member of the Predix board of directors, is a partner at Boston Millennia Partners.

(3) Forward Ventures V, L.P. is a beneficial owner of more than five percent of Predix s voting securities. Joel Martin, Ph.D., a member of the Predix board of directors, is a partner at Forward Ventures.

(4) CMEA Ventures Life Sciences 2000, L.P., CMEA Ventures Life Sciences 2000, Civil Law Partnership and CMEA Ventures VI, GmbH & Co. K.G. are affiliates of CMEA Ventures VI, L.P., a beneficial owner of more than five percent of Predix s voting securities. David Collier, M.D., a member of the Predix board of directors, is a General Partner of CMEA Ventures.

Issuance of Notes and Warrants

In March 2006, Predix closed a financing of convertible promissory notes and warrants in the aggregate amount of $9,516,380. The convertible promissory notes bear interest at 10% per annum and mature on March 31, 2007, provided, that if the merger is consummated prior to August 1, 2006, all principal and accrued interest due under the

convertible promissory notes must be repaid in full within one month of the closing. If the merger is not consummated prior to August 1, 2006, the interest rate will increase from 10% per annum to 15% per annum, retroactive to the date of the issuance of the convertible promissory notes, and under certain circumstances the convertible promissory notes will convert into shares of a new series of Predix preferred stock. In connection with the purchase of the convertible promissory notes, Predix also issued warrants to purchase an aggregate of 201,709 shares of Predix common stock at $0.01 per share. These warrants terminate upon the consummation of the merger, provided that immediately prior to the effective time the warrants will be deemed exercised in the aggregate amount of 201,709 shares of Predix common stock. Prior to the closing of the merger, Predix expects to amend the notes and warrants to extend the August 1, 2006 conversion date to August 31, 2006.

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The following Predix directors, officers, beneficial owners of more than five percent of Predix s voting securities and their affiliates participated in this financing as follows:

Name	Number of Warrant Shares Exercisable for Predix Common Stock		Principal Amount of Notes
Caduceus Private Investments, LP	72,149	$	3,403,888.56
OrbiMed Associates LLC	1,757		82,873.00
UBS Juniper Crossover Fund, L.L.C	24,581		1,159,689.58
Finsury Worldwide Pharmaceutical Trust	2,758		130,113.29
S.R. One Limited	19,920		939,817.82
Boston Millennia Partners II Limited Partnership	28,366		1,338,274.19
Boston Millennia Partners II-A Limited Partnership	1,359		64,106.62
Boston Millennia Partners GmbH & Co. KG	4,039		190,571.49
Strategic Advisors Fund Limited Partnership	255		12,033.31
Boston Millennia Associates Partnership	135		6,364.83
CMEA Ventures Life Sciences 2000, L.P.	11,317		533,925.33
CMEA Ventures Life Sciences 2000, Civil Law Partnership	678		32,001.34
CMEA Ventures VI, L.P.	21,656		1,021,683.70
CMEA Ventures VI, GmbH & Co. K.G	503		23,740.07
PA International Limited	11,889		560,916.87
Total	201,709	$	9,500,000

Stockholders Agreement

Predix is currently a party to the Second Amended and Restated Stockholders Agreement dated January 21, 2005 by and among Predix and certain of its stockholders, as amended on August 1, 2005 and March 31, 2006 that provides for certain registration rights, voting rights, rights of first refusal, transfer restrictions, preemptive rights and co-sale rights. In connection with the merger, this agreement will be terminated immediately prior to the consummation of the merger.

Agreements with Executive Officers and Directors

Predix has employment agreements with Michael G. Kauffman, M.D., Ph.D., Chen Schor, CPA, Silvia Noiman, Ph.D., Oren Becker, Ph.D., Kimberlee C. Drapkin, CPA, and Stephen Donahue, M.D., which provide for certain salary and bonus compensation. For more information regarding these agreements, see Current Management of Predix and Related Information Employment Agreements.

Each option agreement between Predix and Drs. Kauffman, Noiman, Becker and Donahue and Mr. Schor and Ms. Drapkin provides that their options shall become immediately exercisable in full if, within 12 months after a change in control, the employee is terminated without cause. For more information regarding these agreements, see Current Management of Predix and Related Information Change of Control Arrangements.

For information regarding stock options and stock awards granted to our named executive officers and directors, see Current Management of Predix and Related Information Stock Plans.

Engagement of Lehman Brothers Inc.

Mr. Frank, the Chairman of the Predix board of directors, is also the Vice Chairman and a director of Lehman Brothers Inc., Predix s financial advisor in connection with the merger. Under the terms of the engagement with Lehman Brothers, Predix agreed to pay Lehman Brothers a fee of $2.0 million, all of which is contingent upon

consummation of the merger. In addition, whether or not the merger is consummated, Predix has also agreed to reimburse Lehman Brothers for its reasonable out-of-pocket expenses up to $50,000, and to indemnify it against certain liabilities relating to or arising out of services performed by Lehman Brothers.

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EPIX S BUSINESS

Overview

EPIX discovers and develops innovative pharmaceuticals for imaging that are designed to transform the diagnosis, treatment and monitoring of disease. EPIX uses its proprietary Target Visualization Technology to create imaging agents targeted at the molecular level. These agents are designed to enable physicians to use magnetic resonance imaging, or MRI, to obtain detailed information about specific disease processes. MRI has been established as the imaging technology of choice for a broad range of applications, including the identification and diagnosis of a variety of medical disorders. MRI is safe, relatively cost-effective and provides three-dimensional images that enable physicians to diagnose and manage disease in a minimally invasive manner.

EPIX is currently developing two products for use in MRI to improve the diagnosis of multiple diseases involving the body s arteries and veins, collectively known as the vascular system: Vasovist, EPIX s novel blood-pool contrast agent for use in magnetic resonance angiography, which was approved for marketing in all 25 member states of the European Union, or E.U., in October 2005; and EP-2104R, for use in detecting human thrombi, or blood clots, using MRI. EPIX has entered into various partnership agreements with Schering AG with respect to Vasovist and other of its product candidates. EPIX currently owns all development rights to EP-2104R and intends to pursue a collaboration for the continued development of EP-2104R. In addition, EPIX has active research programs with respect to products for diagnostic imaging and therapeutic uses.

Recent Events

Management

In September 2005, EPIX s board of directors appointed Michael J. Astrue as Interim Chief Executive Officer. Mr. Astrue replaced Michael Webb, who resigned from EPIX and its board of directors in September 2005. Mr. Astrue resigned as Interim Chief Executive Officer on May 5, 2006. In addition, EPIX s Chief Financial Officer resigned in July 2005. Andrew C.G. Uprichard, M.D., EPIX s President and Chief Operating Officer, is currently acting as EPIX s principal executive officer and EPIX currently has no Chief Financial Officer and its Executive Director, Finance, is currently serving as its principal accounting officer. Mr. Pelletier and EPIX have agreed that Mr. Pelletier will resign as EPIX s Executive Director of Finance in August 2006.

Regulatory Update for Vasovist

In December 2003, EPIX submitted a new drug application, or NDA, for Vasovist to the U.S. Food and Drug Administration, or FDA. In January 2005, EPIX received an approvable letter from the FDA for Vasovist in which the FDA requested additional clinical trials prior to approval. In May 2005, EPIX submitted a response to the FDA approvable letter, which was accepted by the FDA as a complete response in June 2005. In November 2005, the FDA provided EPIX with a second approvable letter. The second approvable letter indicated that at least one additional clinical trial and a re-read, or reanalysis, of images by a new group of radiologists obtained in certain previously completed Phase III clinical trials would be necessary before the FDA would consider approving Vasovist. EPIX believes that these trials will require a substantial period of time to complete. No safety or manufacturing issues were raised in either approvable letter. EPIX is working with outside regulatory and clinical consultants and the FDA to determine its next steps with respect to Vasovist in the United States. EPIX met with the FDA in January 2006 and April 2006 to discuss the path forward for Vasovist. After considering the parameters of the additional clinical trials requested by the FDA, EPIX filed a formal appeal with the FDA asking the FDA to approve Vasovist and to utilize an advisory committee as part of the appeal process.

In October 2005, the European Medicines Agency, or EMEA, granted marketing approval of Vasovist for all 25 member states of the E.U. Schering AG, EPIX s partner for Vasovist, began marketing Vasovist in Europe in the second quarter of 2006.

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Reduction-in-Force

As a result of the FDA s second approvable letter regarding Vasovist, EPIX eliminated approximately 50% of its workforce in January 2006. The reductions affected both EPIX s research and development and its general and administrative areas. Prior to the initial announcement on November 23, 2005 of EPIX s intention to reduce its workforce, EPIX had 93 employees. Following the completion of the reduction, EPIX had approximately 49 employees.

The workforce reduction resulted in a one-time charge of approximately $1.0 million, which was recognized in the fourth quarter of 2005. Pending any increases in spending associated with FDA-related activity with respect to Vasovist or any changes in spending that result from a transformative transaction, EPIX expects that the reductions in staff should reduce its projected use of cash in 2006 by approximately 30%, or $7 million, excluding non-recurring cash payments associated with the reduction. In 2005, EPIX had a cash burn of approximately $25 million. Several employees included in the reduction will terminate their employment later in 2006 as they complete work on important activities.

Under this reorganization, EPIX plans to focus its resources primarily on the development of its lead product candidates, Vasovist and EP-2104R. Accordingly, EPIX has decided to cease work on the majority of its research projects related to imaging. EPIX continues to allocate resources to one high-priority research project.

EP-2104R

EP-2104R entered Phase II clinical trials in April 2005. In July 2005, EPIX announced that it would be amending its Phase II proof-of-concept clinical trial protocols for EP-2104R to include additional patient safety monitoring based on a review by the FDA of observations from a 14-day, repeat dose pre-clinical toxicology study. EPIX believes that these observations, which were evident in both treated and untreated test animals, are not related to EP-2104R. The additional patient monitoring requested by the FDA in the Phase II trials has extended the timeline and increased the cost for EP-2104R development. Most recently, EPIX announced that it successfully accelerated the enrollment in the Phase II trials and completed these trials in the second quarter of 2006. EPIX further indicated that its has seen encouraging images, which may be indicative of EP-2104R s potential utility for identifying patients at risk of acute thrombotic events, such as stroke.

Use of Gadolinium-Based Imaging Agents

EPIX s Vasovist and EP-2104R, both MRI contrast products, contain gadolinium. In May 2006, the Danish Medicines Agency announced that it was investigating a possible link between the use of Omniscan, an imaging agent containing gadolinium, and the development of a very rare skin disease in 25 patients with severely impaired renal function who had been administered the imaging agent. Although the Danish Medicines Agency stated that a causal relationship between Omniscan and the skin changes had not been documented, they are conducting further investigations with respect to all MRI contrast media containing gadolinium. Although EPIX has reviewed its safety databases for Vasovist and EP-2104R and has found no instances of this rare skin disease, its databases may be too small to show such an effect if it exists. In addition, the Danish Medicines Agency has asked for additional information on all drugs containing gadolinium by July 15, 2006. EPIX expects Schering AG, EPIX s partner for Vasovist and EP-2104R, will respond to that request. EPIX has also received an informal inquiry from the FDA and intends to provide the FDA with the information requested.

Fibrin-Binding Therapeutic Program

EPIX has completed proof-of-concept studies for its anticoagulant therapeutic program and intends to pursue the licensing of this technology to a larger therapeutic company for further development. For these tests, EPIX used a proprietary molecule derived from its patented technology and attached the molecule to the direct thrombin inhibitor melagatran, the active form of Exanta. Results from animal studies were mixed, with one model demonstrating positive results and one model generating significantly less positive

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data. EPIX believes that the combined information is sufficiently encouraging that a larger pharmaceutical company may be interested in evaluating the potential of this technology in next-generation anticoagulant and antithrombotic drugs. The fibrin-binding technology may allow for more specific targeting of these drugs, which in turn, may result in a reduced risk of the bleeding associated with anti-coagulation.

Schering AG

In October 2005, EPIX announced that an amendment to the research collaboration agreement had been entered into with Schering AG. This amendment narrows the definition of the field of EPIX s collaboration with Schering AG to exclude from the research collaboration certain specific types of imaging technology, including certain nanotechnology-based imaging agents. This research collaboration concluded in May 2006. EPIX is in discussions, and expects to continue discussions, with Schering AG regarding the disposition of the research products under this research collaboration.

In June 2004, EPIX entered into a loan agreement with Schering AG which entitled EPIX to borrow up to $15.0 million from time to time. EPIX repaid the loan in full in October 2005, and in January 2006, EPIX terminated the loan agreement with Schering AG.

EPIX Technology

EPIX s product candidates are small molecule chelates, which are soluble metal-organic complexes, containing a magnetically active metal element, gadolinium, which elicits a strong MRI signal. EPIX has designed its product candidate molecules based on their chemical, pharmacological and biophysical attributes and profile. EPIX s compounds must be safe, easily eliminated from the body, and display a useful distribution pattern in the body. At the same time, these agents must elicit the strongest possible effect on the local magnetic properties of tissue.

EPIX develops chelates where one portion is engineered to bind to particular proteins in the body. This binding causes increased concentration and retention of the contrast agent in the specific tissues and fluids that contain the targeted molecules. The chemical structure of Vasovist, for example, is designed to bind selectively to albumin, the most common blood protein, which keeps the agent localized within the bloodstream for an extended period of imaging. In designing EP-2104R for use in imaging blood clots, EPIX has used phage display to select a family of highly specific peptides that bind to fibrin, the dominant protein inside clots, without binding to circulating plasma proteins, including fibrinogen, a similar but far less clot-specific protein in blood.

The binding of a contrast agent to its receptor reduces the rate at which the agent rotates in solution. This reduced rotation rate leads to a complex magnetic effect whereby the agent s signal-enhancing characteristics are substantially increased, resulting in a stronger signal during MRI scans. For Vasovist, binding to albumin results in an up to 10-fold increase in signal relative to non-specific gadolinium agents. EPIX also has technology for the synthesis of discrete, compact clusters of gadolinium chelates to increase the signal from a single targeting molecule. This involves the use of both chemistry and biophysics to maintain the signal-enhancing effect.

Product Candidates Under Development

Vasovist

EPIX s lead product candidate, Vasovist, is an injectable intravascular contrast agent designed to provide visual imaging of the vascular system through magnetic resonance angiography. EPIX believes that Vasovist-enhanced magnetic resonance angiography has the potential to improve the diagnosis of multiple diseases of the vascular system, including vascular disease outside the heart and diseases that affect the coronary arteries and reduce blood flow to the heart. EPIX s initial target indication for Vasovist is for use in magnetic resonance angiography imaging of non-coronary vascular disease.

In December 2003, EPIX submitted an NDA for Vasovist to the FDA and in June 2004, EPIX s development partner Schering AG submitted a Marketing Authorization Application to the EMEA. In

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January 2005, EPIX received an approvable letter from the FDA for Vasovist in which the FDA requested additional clinical trials prior to approval. In May 2005, EPIX submitted a response to the FDA approvable letter, which was accepted by the FDA as a complete response in June 2005. In November 2005, the FDA provided EPIX with a second approvable letter. The second approvable letter indicated that at least one additional clinical trial and a re-read of images obtained in certain previously completed Phase III trials will be necessary before the FDA could approve Vasovist. EPIX believes that these trials would require a substantial period of time to complete. No safety or manufacturing issues were raised in the second approvable letter. EPIX had a meeting with the FDA in January 2006 and April 2006 to discuss the path forward for Vasovist in the United States and EPIX is considering the parameters of additional clinical trials requested by the FDA. EPIX has filed a formal appeal with the FDA asking the FDA to approve Vasovist and to utilize an advisory committee as part of the appeal process.

EPIX believes that Vasovist will significantly enhance the quality of MRI images and provide physicians with a minimally-invasive and cost-effective method for diagnosing vascular disease. EPIX also believes that Vasovist-enhanced magnetic resonance angiography has the potential to simplify the diagnosis of vascular disease. EPIX believes that Vasovist-enhanced magnetic resonance angiography will be a less invasive method of imaging a patient s vascular anatomy for the evaluation of disease.

The NDA EPIX submitted to the FDA for Vasovist is primarily based on a 780-patient Phase III clinical trial program designed to test the safety and efficacy of Vasovist for the imaging of peripheral vascular disease. Four Phase III trials were conducted to determine the efficacy of Vasovist-enhanced magnetic resonance angiography for the detection of vascular disease in the peripheral arterial system, including the aorta, iliac and femoral arteries of the legs, lower abdomen and pelvic regions, as well as in the renal arteries of the kidneys and in the pedal arteries of the feet. EPIX believes all four trials in the Phase III program for Vasovist met their prospectively-defined primary endpoints as specified in the clinical trial protocols. EPIX believes that an important feature of Vasovist is that it yielded a minimal number of uninterpretable magnetic resonance angiography images in the Phase III trials, while non-contrast magnetic resonance angiography produced a significantly higher rate of uninterpretable images.

In both approvable letters related to the NDA for Vasovist, the FDA indicated that its principal questions surrounding the efficacy of Vasovist relate to the non-contrast magnetic resonance angiography comparator scans used in the Phase III trials and to the statistical treatment of uninterpretable scans. The Vasovist Phase III clinical trial protocol required investigators to use their institutional standard medical imaging practice for acquiring non-contrast magnetic resonance angiography comparator scans at each site. The FDA expressed concern that a uniform non-contrast magnetic resonance angiography imaging method was not used by all sites. The FDA requested, and EPIX provided, a series of analyses showing alternative statistical treatment of uninterpretable scans in the calculation of the sensitivity and specificity of both non-contrast and Vasovist-enhanced magnetic resonance angiography imaging methods in the Phase III trials. Eliminating the effects of uninterpretable scans completely from the sensitivity and specificity statistical calculation reduces the resultant efficacy improvements for Vasovist over non-contrast magnetic resonance angiography reported in the Phase III trials.

In October 2005, the EMEA granted approval of Vasovist for all 25 member states of the E.U. Schering AG, EPIX s partner for Vasovist, began marketing Vasovist in Europe in the second quarter of 2006.

EP-2104R

EPIX is developing a second targeted contrast agent, EP-2104R, which is designed to illuminate and identify blood clots using MRI. Finding blood clots is of critical medical significance in the evaluation and diagnosis of patients with stroke, chest pain, heart attack, irregular heartbeat and clots in the lungs and legs. EPIX designed EP-2104R to bind reversibly to fibrin, the dominant protein found in clots. In pre-clinical studies, EP-2104R has been shown to enhance the ability of MRI to image clots throughout the vascular system. In 2004, EPIX completed Phase I clinical trials of EP-2104R in which the drug was well-tolerated in healthy volunteers.

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EP-2104R entered Phase IIa clinical trials in April 2005. In July 2005, EPIX announced that it would be amending its Phase IIa clinical trial protocols for EP-2104R to include additional patient safety monitoring based on observations by the FDA of data from a 14-day, repeat dose pre-clinical toxicology study. EPIX believes that the observations, which were evident in both treated and untreated groups, are not related to EP-2104R. The additional patient monitoring in the Phase IIa trials extended the timeline and increased the cost for EP-2104R development. These trials were completed in the second quarter of 2006.

EPIX is encouraged by the quality of images it has seen in its Phase IIa trial. Schering AG had an option to license and develop EP-2104R, which it did not exercise. EPIX currently owns all development rights to EP-2104R and intends to pursue a collaboration for the continued development of EP-2104R with other potential partners.

Use of Vasovist with MRI and Magnetic Resonance Angiography Technology

EPIX believes that there is significant clinical need for an FDA-approved highly accurate, minimally-invasive technology that can enhance MRI and that provides more comprehensive diagnostic information about the vascular system. EPIX believes that Vasovist-enhanced magnetic resonance angiography may facilitate several clinically valuable diagnostic procedures, particularly in diagnosing vascular disease.

MRI is the imaging technology of choice for a broad range of applications, including brain tumors, knee injuries and disorders of the head, neck and spine. The use of MRI has grown steadily over the past 10 years in part due to its broader availability, improved imaging capabilities and the lack of radiation exposure to the patient. MRI is performed by placing a portion of the patient s body in a magnetic field and applying safe, low-energy radio waves. The different organs and tissues in the body respond uniquely to the electromagnetic field within the MRI scanner, and these responses can be captured and converted into high-resolution three-dimensional images. When a contrast agent is used, it is injected into a vein in the patient s arm prior to an MRI exam to amplify the signal from the anatomical structure that is being imaged. MRI scanners are characterized by the strength of the magnetic field they generate. Typical MRI scanners, those most commonly found in hospitals, generate a relatively strong magnetic field and therefore require significant infrastructure for installation. Low-field scanners, whose magnetic fields are less than one-third the strength of traditional scanners, are often found in non-hospital settings due to their relatively low cost and infrastructure requirements. The trade-off for low-field MRI scanners is that a decrease in the strength of the magnetic field results in a decrease in the MRI signal detected, which typically results in reduced image quality.

While MRI is currently used extensively to image many organs and tissues in the body, its use in imaging the vascular system has been limited. Currently-available MRI contrast agents are not optimal for imaging many vascular beds due to the rapid leakage of the injectable contrast agent from the vascular system into the surrounding tissue as well as rapid excretion from the body, resulting in only approximately 30 to 60 seconds for the imaging of a limited vascular area. As a result of this rapid clearance from the vascular system, the time available to image blood vessels with these contrast agents is too short to obtain the high resolution images of multiple vascular regions desired for broad clinical application. In addition, performance of magnetic resonance angiography using currently approved contrast agents generally requires specialized equipment and specially trained staff. None of the currently available MRI contrast agents are approved by the FDA for use in magnetic resonance angiography.

While the use of magnetic resonance angiography is expanding among experts, its major application has been in the head and neck and it has not had a significant impact on the diagnosis of vascular disease to date, with the exception of arterial studies of the head and neck. Non-contrast magnetic resonance angiography exams of the vascular system, which image blood flow, are often ineffective when used in patients with vascular disease because of the minimal blood flow or turbulent blood flow associated with this condition. Even for the imaging of the carotid arteries in the neck, where non-contrast, flow-based magnetic resonance angiography has had some clinical impact, the lack of direct anatomic data limits the ability of magnetic resonance angiography to provide a quantitative measurement of stenosis required for

accurate diagnosis. magnetic resonance angiography exams using existing general-use contrast agents are limited by the rapid diffusion of the agents out of the vascular system, which reduces the time during which an image can be acquired. Consequently, many experts believe MRI contrast agents that remain in the bloodstream for extended periods of time will be necessary to attain widespread use of MRI to image the vascular system.

Vasovist is specifically designed to improve the quality of magnetic resonance images of the arteries and veins and to provide physicians with a high resolution method for diagnosing vascular disease. Vasovist is a small molecule that produces an MRI signal because of the presence of gadolinium, a magnetically active element favored by clinicians for enhancing magnetic resonance images. Using standard MRI techniques, Vasovist-enhanced magnetic resonance angiography produces a strong magnetic signal, resulting in bright images of the blood against the dark background of surrounding tissue. Because of its affinity for serum albumin, Vasovist remains at high concentrations in the bloodstream throughout an MRI exam, providing the extended period, approximately 60-minutes, of imaging time and signal strength required to obtain a high resolution image of multiple regions of the vascular system. Like most currently available general use MRI contrast agents, Vasovist is designed to be safely eliminated from the body through the kidneys over time. In clinical trials of renally-compromised patients, Vasovist appeared safe and well tolerated, a potentially important feature given the inherent risks of X-ray contrast agents used in X-ray angiography.

EPIX believes that Vasovist, by providing a longer imaging window, allowing visualization of multiple arterial beds and making magnetic resonance angiography easier to perform, has the potential to become the preferred contrast agent for a significant portion of magnetic resonance angiographies currently performed with general use contrast agents. Unlike most currently available general use MRI contrast agents, which are non-specific and rapidly clear out of the arteries and veins, Vasovist is designed to bind reversibly to albumin, the most common protein in the blood. Because of its affinity for albumin, Vasovist has an enhanced effect on the magnetic properties of the blood and remains at relatively stable concentrations in the bloodstream throughout the MRI exam and, therefore, provides the image acquisition time and signal strength needed to obtain high resolution images of the vascular system. These images are intended to provide sufficient anatomical detail for definitive diagnosis and surgical planning. Accordingly, EPIX believes that Vasovist-enhanced magnetic resonance angiography has the potential to replace a significant portion of the conventional diagnostic X-ray angiograms performed each year.

Atherosclerosis is one of the most common forms of vascular disease. This condition refers to the accumulation of fatty plaques in the inner lining of blood vessels, resulting in a thickening of affected vessels. As the disease progresses, the arteries can become weakened or increasingly narrowed, thereby reducing blood flow to vital organs, including the heart and brain. Clinicians have also begun to realize the importance of characterizing atherosclerotic plaques once they have been identified. Even in arteries where significant narrowing has not yet occurred, vulnerable plaques may rupture, causing a blood clot to form, which can result in heart attack, stroke and death. EPIX believes that the ability to characterize plaques may allow physicians to identify those regions of vascular disease that present the most immediate threat to patients health and that Vasovist will aid in the evaluation of the disease.

EPIX believes that Vasovist, coupled with anticipated advances in software and hardware for MRI equipment, will enable physicians to use MRI to perform a minimally-invasive, integrated cardiac exam for the diagnosis of coronary artery disease. Such a procedure would be designed to provide information on coronary artery anatomy, including location of arterial blockages as well as cardiac perfusion and cardiac function data, in one sitting early in the diagnostic work-up. Because the procedure is intended to provide physicians with more comprehensive diagnostic information at an earlier stage of the diagnostic work-up, physicians would be able to make a more informed diagnosis and therefore arrange for appropriate patient treatment sooner than would otherwise be possible, thereby potentially achieving better patient outcomes at a lower cost. EPIX believes that over half of the patients in the United States who enter the diagnostic pathway for coronary artery disease each year could be candidates for such an integrated cardiac exam.

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EPIX believes Vasovist-enhanced magnetic resonance angiography will find significant clinical utility beyond the diagnosis of vascular disease. Because of its potential for high-resolution imaging of the vasculature, Vasovist may be useful in diagnosing several conditions involving damaged or abnormal microvessels, such as cancer. In addition, as it is targeted to albumin, Vasovist-enhanced magnetic resonance angiography may play a role in diagnosing conditions which result in regions of atypical albumin concentration, such as inflammation due to infection or due to rheumatoid diseases, such as arthritis or lupus.

Strategic Alliances and Collaborations

Schering AG

In June 2000, EPIX entered into a strategic collaboration agreement for Vasovist pursuant to which EPIX granted Schering AG an exclusive license to co-develop and market Vasovist worldwide, excluding Japan. In December 2000, EPIX amended this strategic collaboration agreement to grant to Schering AG the exclusive rights to develop and market Vasovist in Japan. Generally, each party to the agreement will share equally in Vasovist costs and profits. Under the agreement, EPIX will assume responsibility for completing clinical trials and filing for FDA approval in the United States and Schering AG will lead clinical and regulatory activities for the product outside the United States. In addition, EPIX granted Schering AG an exclusive option to develop and market an unspecified vascular MRI blood pool agent from EPIX s product pipeline. In connection with this strategic collaboration and the amendment to EPIX s strategic collaboration agreement with Tyco/ Mallinckrodt, as further described below, Schering AG paid EPIX an up-front fee of $10.0 million, which EPIX then paid to Tyco/ Mallinckrodt. Under the agreement, Schering AG also paid EPIX $20.0 million in exchange for shares of EPIX s common stock through its affiliate, Schering AG Berlin Venture Corporation, or Schering AG BV. EPIX may receive up to an additional $28.8 million in milestone payments under the strategic collaboration agreement, of which $5.5 million has been paid to date and up to an additional $1.3 million may be earned upon U.S. product approval. Following commercial launch of Vasovist, EPIX will also be entitled to receive a royalty on products sold outside the United States and a percentage of Schering AG s operating profit margin on products sold in the United States.

Also, under the strategic collaboration agreement with Schering AG, EPIX has options to acquire certain participation rights with respect to two of Schering AG s MRI imaging products currently in clinical trials, SHU555C and Gadomer. EPIX is currently entitled to exercise the option for SHU555C on a region-by-region basis for payments which aggregate approximately $20 million. If EPIX exercises the SHU555C option, it will enter into a definitive agreement with Schering AG with respect to SHU555C, pursuant to which Schering AG will be responsible for the conduct of all development, marketing and sales activities in connection with SHU555C in return for a royalty on the sales of product. The SHU555C option will expire in the second quarter of 2007. EPIX will be entitled to exercise the option for Gadomer on a region-by-region basis for payments which aggregate approximately $10 million after Schering AG meets certain clinical milestones, and EPIX will have 120 days to exercise the option after it becomes exercisable. If EPIX exercises the Gadomer option, it will enter into a definitive agreement with Schering AG with respect to Gadomer, pursuant to which EPIX will share development costs incurred from the date of the option exercise, as well as profits, equally with Schering AG and EPIX will be obligated to make milestone payments to Schering AG aggregating approximately $20 million.

Under the terms of the strategic collaboration agreement for Vasovist, either party may terminate the agreement upon thirty days notice if there is a material breach of the contract. In addition, Schering AG may terminate the agreement at any time on a region-by-region basis or in its entirety, upon six months written notice to EPIX; and EPIX may terminate the agreement with respect to development of Vasovist in the E.U. at any time upon 90 days written notice to Schering AG, if Schering AG has failed to meet its obligations in connection with the regulatory approval of Vasovist in the E.U.

In May 2003, EPIX announced a broad alliance with Schering AG for the discovery, development and commercialization of molecularly-targeted contrast agents for MRI. The alliance is composed of two

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areas of collaboration, with one agreement providing for exclusive development and commercialization collaboration for EP-2104R, EPIX s product candidate for the detection of thrombus, as well as any other product candidate that EPIX and Schering AG determine to develop for detection of thrombus using MRI, and the second agreement covering an exclusive research collaboration to discover novel compounds for diagnosing human disease using MRI. Under the first agreement, Schering AG had an option to the late stage development and worldwide marketing rights for EP-2104R, other thrombus imaging agents and for all development candidates emerging from the MRI research collaboration. On July 12, 2006, Schering AG notified EPIX that it declined to exercise this option. The second agreement related to the broader research collaboration expires in May 2013 but the on-going research jointly pursued under the research collaboration agreement concluded in May 2006.

Under the terms of the EP-2104R agreement, EPIX was responsible for execution of a clinical feasibility program in humans. At the end of the feasibility program, Schering AG had an option to develop and commercialize EP-2104R under which Schering AG would have received an exclusive, worldwide license for EP-2104R and would have become responsible for all further development, manufacturing, marketing and sales. Schering AG made fixed payments to EPIX totaling approximately $9.0 million to cover EPIX s expenditures in the feasibility program. As a result of Schering AG s decision not to exercise this option, the rights to EP-2104R reverted to EPIX.

Under the terms of the MRI three-year joint research agreement, EPIX and Schering AG have exclusively combined EPIX s existing research programs in the field of diagnosing human disease using MRI to discover novel MRI product candidates for clinical development. Schering AG funds a portion of EPIX s related personnel costs and third-party research costs of up to $2.0 million per annum. Also under the MRI research agreement, Schering AG has the first 90-day option to obtain exclusive, worldwide rights for the product candidates and, upon exercising the option, would become responsible for all future development, manufacturing, marketing and sales. EPIX would receive a base royalty on net sales with the option to increase the royalty by participating in development funding. If Schering AG does not exercise its option, EPIX may license the product to a third party and Schering AG would receive a base royalty on net sales and milestone payments.

In October 2005, EPIX announced that an amendment to the research collaboration agreement had been entered into with Schering AG. This amendment narrows the definition of the field of EPIX s collaboration with Schering AG to exclude from the research collaboration certain specific types of imaging technology, including certain nanotechnology-based imaging agents. This research collaboration concluded in May 2006. EPIX is in discussions, and expects to continue discussions, with Schering AG regarding the disposition of the research products under this research collaboration.

In May 2003, EPIX entered into a loan agreement with Schering AG which entitled EPIX to borrow up to $15.0 million from time to time. EPIX repaid the loan in full in October 2005 and in January 2006, it terminated the loan agreement with Schering AG.

On May 8, 2000, EPIX granted to Schering AG a worldwide, royalty-bearing license to patents covering Schering AG s development project, Primovist, an MRI contrast agent for imaging the liver, approved in the E.U. in 2004. Under this agreement, Schering AG is required to pay EPIX royalties based on sales of products covered by this agreement. This agreement expires upon the last-to-expire patent covered by the agreement unless terminated earlier by either party because of the material breach of the agreement by the other party. Also on May 8, 2000, Schering AG granted EPIX a non-exclusive, royalty-bearing license to certain of its Japanese patents. EPIX agreed to withdraw its invalidation claim of Schering AG s Japanese patent 1,932,626 in the Japanese Patent Office pursuant to this license agreement. Under this agreement, EPIX is required to pay Schering AG royalties based on sales of products covered by this agreement. This agreement expires upon the last-to-expire patent covered by the agreement unless terminated earlier by either party because of the material breach of the agreement by the other party. See Contractual Disputes for a further discussion of this license agreement. Schering AG had been an opposing party in EPIX s European patent case prior to the licensing agreement. On May 9, 2000, the Opposition Division of the European Patent Office maintained EPIX s European patent in a

slightly amended form. The patent is owned by Massachusetts General Hospital, or MGH, and is exclusively licensed to EPIX. The remaining opposing parties initially elected to appeal the May 9, 2000 decision. However, in September 2001, EPIX settled this patent dispute with the opposing parties by entering into a non-exclusive royalty bearing license agreement with Bracco. See Contractual Disputes for further discussion of this settlement.

Tyco/ Mallinckrodt

In June 2000, in connection with the exclusive license that EPIX granted to Schering AG, EPIX amended its strategic collaboration with Tyco/ Mallinckrodt. The amendment enabled EPIX to sublicense certain technology from Tyco/ Mallinckrodt to Schering AG which allowed EPIX to enter into the strategic collaboration agreement for Vasovist with Schering AG. Pursuant to that amendment, EPIX also granted to Tyco/ Mallinckrodt a non-exclusive, worldwide license to manufacture Vasovist for clinical development and commercial use on behalf of Schering AG in accordance with a manufacturing agreement entered into in June 2000 between Tyco/ Mallinckrodt and Schering AG. In connection with this amendment, EPIX paid Tyco/ Mallinckrodt an up-front fee of $10.0 million and is obligated to pay up to an additional $5.0 million in milestone payments, of which $2.5 million was paid following NDA filing in February 2004 and $2.5 million will be paid upon U.S. product approval. EPIX will also pay Tyco/ Mallinckrodt a share of its Vasovist operating profit margins in the United States and a percentage of the royalty that EPIX receives from Schering AG on Vasovist gross profits outside the United States.

Daiichi

In March 1996, EPIX entered into a development and license agreement with Daiichi pursuant to which EPIX granted Daiichi an exclusive license to develop and commercialize Vasovist in Japan. Under this arrangement, Daiichi assumed primary responsibility for clinical development, regulatory approval, marketing and distribution of Vasovist in Japan. EPIX retained the right and obligation to manufacture Vasovist for development activities and commercial sale under the agreement. In December 2000, EPIX reacquired the rights to develop and commercialize Vasovist in Japan from Daiichi. Under the terms of this reacquisition agreement with Daiichi, EPIX agreed to pay Daiichi a total amount of $5.2 million, of which EPIX paid $2.8 million in January 2001 and $2.4 million in December 2003. Daiichi will also receive a royalty from EPIX based on net sales of Vasovist in Japan. Simultaneously with EPIX s reacquisition from Daiichi of the Vasovist development and marketing rights in Japan, EPIX assigned these rights to Schering AG as described above.

Massachusetts General Hospital

In July 1995, EPIX entered into a license agreement with MGH pursuant to which MGH has granted EPIX an exclusive worldwide license to the patents and patent applications which relate to Vasovist. The MGH license imposed certain due diligence obligations with respect to the development of products covered by the license, all of which have been fulfilled to date. The MGH license requires EPIX to pay royalties on its net sales of products covered by this license, including Primovist, MultiHance and Vasovist. EPIX has paid MGH an aggregate of less than $500,000 in royalty payments, primarily related to the sale of Primovist and MultiHance, through the first quarter of 2006 under this license agreement. The license agreement expires on a country-by-country basis when the patents covered by the license agreement expire. For example, the patents covered by this license agreement are currently expected to expire in November 2006, although the life of these patents may be extended. The license agreement does not contain a renewal provision. EPIX believes that the expiration of these patents does not compromise its proprietary position with respect to Vasovist because Vasovist is covered by composition of matter patents independent of its license with MGH, which extend into 2015 in the United States, although the life of these patents may be extended.

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Prince

In November 2003, EPIX entered into an intellectual property agreement with Dr. Martin R. Prince, an early innovator in the field of magnetic resonance angiography relating to dynamic magnetic resonance angiography, which involves capturing magnetic resonance angiography images during the limited time, typically 30 to 60 seconds, available for imaging with extracellular agents. Under the terms of the intellectual property agreement, Dr. Prince granted EPIX certain discharges, licenses and releases in connection with the historic and future use of Vasovist by EPIX and agreed not to sue EPIX for intellectual property infringement related to the use of Vasovist. In consideration of Dr. Prince entering into the agreement, EPIX agreed to pay him an upfront fee of $850,000 and royalties on sales of Vasovist consistent with a non-exclusive early stage academic license and agreed to deliver to him 132,000 shares of EPIX s common stock with a value of approximately $2.3 million based on the closing price of EPIX s common stock on the date of the agreement. In addition, EPIX agreed to supply Dr. Prince with approximately $140,000 worth of Vasovist.

Competition

The healthcare industry is characterized by extensive research efforts and rapid technological change and there are several companies that are working to develop products similar to EPIX s products. However, there are a number of general use MRI agents approved for marketing in the United States and in certain foreign markets that, if used or developed for magnetic resonance angiography, are likely to compete with Vasovist. Such products include Magnevist and Gadovist by Schering AG, Dotarem by Guerbet, S.A., Omniscan by GE Healthcare, ProHance and MultiHance by Bracco and OptiMARK by Tyco/ Mallinckrodt. EPIX is aware of five agents under clinical development that have been or are being evaluated for use in magnetic resonance angiography: Schering AG s Gadomer and SHU555C, Guerbet s Vistarem, Bracco s B-22956/1, Ferropharm s Code VSOP-C184, and Advanced Magnetics Ferumoxytol. EPIX is aware of no MRI contrast agent other than EPIX s prototype being developed for use in imaging blood clots. EPIX cannot assure you that its competitors will not succeed in the future in developing products that are more effective than any that EPIX is developing. EPIX believes that its ability to compete in developing MRI contrast agents depends on a number of factors, including the success and timeliness with which it completes FDA trials, the breadth of applications, if any, for which its products receive approval, and the effectiveness, cost, safety and ease of use of its products in comparison to the products of its competitors.

In addition to competition within the MRI field, EPIX also faces competition from other imaging technologies, including CT scans, ultrasounds, and X-ray scans. EPIX success will depend on physician acceptance of MRI as a primary imaging modality for certain vascular and other applications.

Patents and Proprietary Rights

EPIX considers the protection of its proprietary technologies to be material to its business prospects. EPIX pursues a comprehensive patent program in the United States and in other countries where it believes that significant market opportunities exist. EPIX owns or has exclusively licensed patents and patent applications related to its core technologies.

EPIX s patents and patent applications relating to its technology and products include the following:

Two U.S. patents exclusively licensed from MGH which expire in 2006 in the United States (U.S. Patents 4,899,755 and 4,880,008) as well as their cognate patents in certain foreign countries, including EPO 222,886. This patent has been extended through Supplementary Protection Certificates for Primovist through May 2011 in certain European countries. These patents generally relate to MRI signal generation technology, albumin binding with metal chelates and liver targeting metal chelates, and U.S. Patent 4,880,008 relates to Primovist and MultiHance, for which EPIX receives a royalty on sales, and Vasovist.

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Eight U.S. patents owned by EPIX as well as their cognate patents and applications in certain foreign countries which relate to Vasovist:

U.S. Patent 5,919,967, Process for Synthesizing Phosphodiesters (granted July 6, 1999; expires April 11, 2017);

U.S. Patent 6,548,044, Imaging Sexual Response (granted April 15, 2003; expires November 21, 2020);

U.S. Patent 6,549,798, Magnetic Resonance Angiography Data (granted April 15, 2003; expires February 7, 2021);

U.S. Patent 6,676,929, Diagnostic Imaging Contrast Agents With Extended Blood Retention (granted January 13, 2004; expires February 1, 2015; however, the USPTO has indicated that the patent is entitled to 114 days of patent term adjustment);

U.S. Patent 6,861,045, Contrast-enhanced diagnostic imaging method for monitoring interventional therapies (granted March 1, 2005; expires October 2, 2017; however the USPTO has indicated that the patent is entitled to 424 days of patent term adjustment);

U.S. Patent 6,925,321, Magnetic Resonance Angiography Data (granted August 2, 2005; expires February 7, 2021);

U.S. Patent 6,969,507, Imaging Sexual Response (granted November 29, 2005; expires November 21, 2020; however the USPTO has indicated that the patent is entitled to 117 days of patent term adjustment); and

U.S. Patent 7,011,815, Diagnostic Imaging Contrast Agents with Extended Blood Retention (granted March 14, 2006; expires February 1, 2015).

Four U.S. patents owned by EPIX as well as their cognate patents and applications in certain foreign countries which relate to EP-2104R or other EPIX research projects:

U.S. Patent 5,582,814, Contrast Agents for Diagnostic Imaging (granted December 10, 1996; expires April 15, 2014);

U.S. Patent 6,652,835, Targeting Multimeric Imaging Agents Through Multilocus Binding (granted November 25, 2003; expires July 28, 2020);

U.S. Patent 6,709,646, Bioactivated Diagnostic Imaging Contrast Agents (granted March 23, 2004; expires March 25, 2017; however, the USPTO has indicated that the patent is entitled to 99 days of patent term adjustment); and

U.S. Patent 6,991,775, Peptide-based multimeric targeted contrast agents (granted January 31, 2006; expires July 30, 2022).

Twenty-three U.S. utility applications in prosecution as well as their cognate applications in certain foreign countries and five provisional utility applications. Some of these relate to MRI, Vasovist and methods of use, EP-2104R and methods of use, and others to therapeutics and methods of use.

Some of EPIX s patents related to Vasovist will expire in 2006. Other patents related to Vasovist will not expire until 2015. Protection for Vasovist manufacturing processes in the United States will not expire until 2017. Patents related to certain methods of using Vasovist will not expire until 2021. EPIX plans to apply for patent term extension on one of the patents or patent applications described above under the Hatch/ Waxman provisions, which may extend the term of EPIX s patent protection.

A patent related to EP-2104R will not expire until 2022. If all of EPIX s pending patent applications issue with claims substantially similar to those currently set forth in such applications, further patent protection for EP-2104R may not expire until 2022.

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Contractual Disputes

EPIX has received various payments, including royalties on a quarterly basis, pursuant to a license with Bracco. In December 2004, EPIX learned from Bracco that Bracco was asserting that it had overstated non-U.S. royalties to EPIX for the period 2001 to 2004 and that it would offset the amount of the overstatement against its royalty payments to EPIX, including those triggered by FDA approval of MultiHance in the United States. EPIX has challenged Bracco s underpayment, its right to recalculate previous royalties under EPIX s license agreement and the substance of its restatements and are in discussions with Bracco regarding the resolution of this dispute.

On May 8, 2000, EPIX granted to Schering AG a worldwide royalty-bearing license to EPIX s patents covering Schering AG s development project, Primovist, an MRI contrast agent for imaging the liver, approved in the E.U. in 2004. Also on May 8, 2000, Schering AG granted EPIX a non-exclusive royalty-bearing license to its Japanese Patent Nos. 1,932,626 and 1,968,413, and its Japanese Application corresponding to PCT Intl. Pub. No. WO99/16474. EPIX has agreed to withdraw its invalidation claim of Schering AG s Japanese Patent No. 1,932,626 in the Japanese Patent Office pursuant to this license agreement. As a result of the settlement and license agreements with Bracco and Schering AG, apart from EPIX s royalty dispute with Bracco, EPIX is not aware of any legal actions involving this patent family.

Manufacturing

EPIX does not have, nor does it currently have plans to develop, full-scale manufacturing capability for Vasovist. Schering AG is responsible for the manufacture of Vasovist. Schering AG relies on Tyco/ Mallinckrodt as the sole manufacturer of Vasovist for human clinical trials and commercial use. Together with Schering AG, EPIX is considering alternative manufacturing arrangements for Vasovist for commercial use, including the transfer of manufacturing to Schering AG. In the event that Tyco/ Mallinckrodt fails to fulfill its manufacturing responsibilities satisfactorily, Schering AG has the right to purchase Vasovist from a third party or to manufacture the compound itself.

Government Regulation

The manufacture and commercial distribution of pharmaceuticals are subject to extensive governmental regulation in the United States and other countries. Pharmaceuticals, including contrast-imaging agents for use with MRI, are regulated in the United States by the FDA under the Food, Drug and Cosmetic Act, or FD&C Act, and require FDA approval prior to commercial distribution. Pursuant to the FD&C Act, pharmaceutical manufacturers and distributors must be registered with the FDA and are subject to ongoing FDA regulation, including periodic FDA inspection of their facilities and review of their operating procedures. Both before and after approval, noncompliance with applicable requirements can result in failure to receive approval, withdrawal of approval, total or partial suspension of production, fines, injunctions, civil penalties, recalls or seizure of products and criminal prosecution, each of which would have a material adverse effect on EPIX s business, financial conditions and results of operations.

In order to undertake clinical trials and market pharmaceutical products for diagnostic or therapeutic use in humans, the procedures and safety standards established by the FDA and comparable agencies in foreign countries must be followed. In the United States, a company seeking approval to market a new pharmaceutical must obtain FDA approval of an NDA. The steps required before a drug may be marketed in the United States include:

performance of pre-clinical laboratory and animal studies;

submission to the FDA of an application for an investigational new drug application, or IND, which must become effective before human clinical trials may commence;

completion of adequate and well-controlled human clinical trials to establish the safety and efficacy of the pharmaceutical for its intended use;

submission to the FDA of an NDA;

satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is produced to assess compliance; and

FDA review and approval of the NDA.

Pre-clinical studies include laboratory evaluation of product chemistry and animal studies to assess the potential safety and efficacy of the product and its formulation. The results of the pre-clinical studies and the protocol for the proposed clinical trial are submitted to the FDA as part of an IND. An IND automatically becomes effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions about issues such as the conduct of the clinical trials outlined in the IND. In that case, the IND is placed on clinical hold and the sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. Clinical trials are conducted in accordance with protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol together with information about the clinical investigators who will perform the studies and the institutions at which the trials will be performed are submitted to the FDA as part of the IND.

An institutional review board, at each institution at which the trial will be conducted will also be asked by the principal investigator at that institution to approve, according to FDA regulations governing institutional review boards, the trials that will be performed at that institution. Institutional review boards will consider, among other things, ethical factors, the protection of human subjects and the possible liability of the institution and the adequacy of the informed consent.

Clinical trials under the IND are typically conducted in three sequential phases, but the phases may overlap. In Phase I, the initial introduction of the pharmaceutical into humans, the pharmaceutical is tested for safety, dosage tolerance, metabolism, distribution, excretion and clinical pharmacology in healthy adult subjects. Imaging agents may also be subject to additional Phase I trials under which an agent s imaging characteristics in humans are first evaluated. Phase II involves a detailed evaluation of the safety and efficacy of the agent in a range of doses in patients with the disease or condition being studied. Phase III clinical trials typically consist of evaluation of safety and efficacy in a larger patient population and at more institutions.

Assuming successful completion of the required clinical testing, the results of the pre-clinical studies and clinical trials, together with other detailed information, including information on the manufacture of the drug, are submitted to the FDA in the form of a new drug application, or NDA, requesting approval to market the product for one or more indications. During the review period for the NDA, an FDA advisory committee may be asked to review and evaluate the application and provide recommendations to the FDA about approval of the pharmaceutical. In addition, the FDA will usually inspect the facility at which the pharmaceutical is manufactured to assess compliance with current good manufacturing practices, or cGMP, and other applicable regulations. Failure of a manufacturer to comply or come into compliance with cGMP requirements could significantly delay FDA approval of the NDA.

After an NDA is approved, a company would continue to be subject to pervasive and continuing regulation by the FDA, including record keeping requirements, reporting of adverse experience from the use of the agent, restrictions on promotion and advertising and other requirements imposed by the FDA. FDA regulations also require FDA approval of an NDA supplement for certain changes if they affect the safety and efficacy of the pharmaceutical, including, but not limited to, new indications for use, labeling changes, the use of a different facility to manufacture, process or package the product, changes in manufacturing methods or quality control systems and changes in specifications for the product. If the FDA determines that the NDA and the manufacturing facilities are acceptable, the FDA will issue an approval letter. If the FDA determines the application or manufacturing facilities are not acceptable, the FDA will outline the deficiencies in the submission and often will request additional testing or information. Notwithstanding the submission of any requested information, the FDA ultimately may decide that the NDA does not satisfy the regulatory criteria for approval. EPIX s failure to receive approval of an NDA supplement could have a material adverse effect on its business, financial condition and results of operations.

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EPIX is and may be subject to regulations under state and federal law regarding occupational safety, laboratory practices, handling of chemicals, environmental protection and hazardous substance control. EPIX also will be subject to existing present and possible future local, state, federal and foreign regulation. Approval and marketing of pharmaceutical products outside of the United States are subject to regulatory requirements that vary widely from country to country. The time required to obtain regulatory approval from comparable regulatory agencies in each foreign country may be longer or shorter than that required for FDA approval. In addition, in certain foreign markets EPIX may be subject to governmentally mandated prices for its products.

Regulations regarding the approval, manufacture and sale of EPIX s product candidates are subject to change. EPIX cannot predict what impact, if any, such changes might have on its business, financial condition or results of operations.

EPIX s research, development and manufacturing processes require the use of hazardous substances and testing on certain laboratory animals. As a result, EPIX is also subject to federal, state, and local laws, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and waste as well as the use of and care of laboratory animals. These laws and regulations are all subject to change. EPIX cannot predict what impact, if any, such changes might have on its business, financial condition or results of operations.

Reimbursement

EPIX expects that sales volumes and prices of its products will be dependent in large measure on the availability of reimbursement from third-party payors and that individuals seldom would be willing or able to pay directly for all the costs associated with procedures which in the future may incorporate the use of EPIX s products. EPIX expects that when approved for sale in the United States, its products will be purchased by hospitals, clinics, doctors and other users that bill various third-party payors, such as Medicare, Medicaid and other government insurance programs, and private payors including indemnity insurers, Blue Cross Blue Shield plans and managed care organizations, such as health maintenance organizations. Most of these third-party payors provide coverage for MRI for some indications when it is medically necessary, but the amount that a third-party payor will pay for MRI may not include a separate payment for a contrast imaging agent that is used with MRI. Reimbursement rates vary depending on the procedure performed, the third-party payor, the type of insurance plan and other factors.

Many third-party payors in the United States, including governmental payors such as the Centers for Medicare and Medicaid Services carefully review and increasingly challenge the prices charged for procedures and medical products. In the past few years, the amounts paid for radiology procedures in particular have come under careful scrutiny and have been subject to decreasing reimbursement rates.

In foreign markets, reimbursement is obtained from a variety of sources, including governmental authorities, private health insurance plans and labor unions. In most foreign countries, there are also private insurance systems that may offer payments for alternative therapies. Although not as prevalent as in the United States, health maintenance organizations are emerging in certain European countries.

With respect to certain of EPIX s products, including Vasovist, Schering AG is responsible for obtaining and maintaining reimbursement.

Employees

As of June 28, 2006, EPIX employed 41 full-time employees, including 23 employees who are primarily engaged in research and development activities and 18 employees who are primarily engaged in general and administrative activities. EPIX believes that its relations are good with its employees. None of EPIX s employees are a party to a collective bargaining agreement. On December 31, 2005, EPIX employed approximately 96 persons on a full-time basis, which was subsequently lowered following the reduction in force described above.

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Research and Development

During the years ended December 31, 2005, 2004 and 2003, EPIX incurred research and development expenses of approximately $20.8 million, $21.9 million and $28.0 million, respectively.

Legal Proceedings

From time to time in the ordinary course of business, EPIX is subject to various claims, charges and litigation. In January 2005, a securities class action was filed in U.S. District Court for the District of Massachusetts against EPIX and certain of its officers on behalf of persons who purchased EPIX common stock between July 10, 2003 and January 14, 2005. The complaint alleged that EPIX and the other defendants violated the Securities Exchange Act of 1934, as amended, by issuing a series of materially false and misleading statements to the market throughout the class period, which statements had the effect of artificially inflating the market price of EPIX s securities. In January 2006, the U.S. District Court for the District of Massachusetts granted EPIX s Motion to Dismiss for Failure to Prosecute the shareholder class action lawsuit against EPIX. The dismissal without prejudice was granted after a hearing, which dismissal does not prevent another suit to be brought based on the same claims.

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EPIX MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of EPIX s financial condition and results of operations in conjunction with EPIX s consolidated financial statements and the related notes included elsewhere in this joint proxy statement/ prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, including those set forth under the section entitled Risk Factors and elsewhere in this joint proxy statement/ prospectus, EPIX s actual results may differ materially from those anticipated in these forward-looking statements.

Overview

EPIX Pharmaceuticals, Inc. discovers and develops innovative pharmaceuticals for imaging that are designed to transform the diagnosis, treatment and monitoring of disease. EPIX uses EPIX s proprietary Target Visualization Technology to create imaging agents targeted at the molecular level. These agents are designed to enable physicians to use magnetic resonance imaging, or MRI, to obtain detailed information about specific disease processes. MRI has been established as the imaging technology of choice for a broad range of applications, including the identification and diagnosis of a variety of medical disorders. MRI is safe, relatively cost-effective and provides three-dimensional images that enable physicians to diagnose and manage disease in a minimally invasive manner.

EPIX is currently developing two products for use in MRI to improve the diagnosis of multiple diseases involving the body s arteries and veins, collectively known as the vascular system: Vasovist, EPIX s novel blood-pool contrast agent for use in magnetic resonance angiography, which was approved for marketing in all 25 member states of the E.U. in October 2005; and EP-2104R for detecting human thrombi, or blood clots, using MRI. EPIX has entered into various partnership agreements with Schering AG with respect to Vasovist and other of its product candidates. EPIX currently owns all development rights to EP-2104R and intends to pursue a collaboration for the continued development of EP-2104R. In addition, EPIX has active research programs with respect to products for diagnostic imaging and therapeutic uses.

Critical Accounting Policies and Estimates

The discussion and analysis of EPIX s financial condition and results of operations is based on EPIX s financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires EPIX to make estimates and judgments that affect EPIX s reported assets and liabilities, revenues and expenses, and other financial information. Actual results may differ significantly from the estimates under different assumptions and conditions.

EPIX s significant accounting policies are more fully described in Note 2 of EPIX s Financial Statements for the year ended December 31, 2005. Not all significant accounting policies require management to make difficult, subjective or complex judgments or estimates. EPIX believes that EPIX s accounting policies related to revenue recognition, research and development and employee stock compensation, as described below, require critical accounting estimates and judgments.

Revenue Recognition

EPIX recognizes revenues from non-refundable license fees and milestone payments not specifically tied to a separate earnings process ratably over the period during which EPIX has substantial continuing obligations to perform services under the contract. When milestone payments are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligations associated with the payment are completed. When the period of deferral cannot be specifically identified from the contract, EPIX estimates the period of deferral based upon EPIX s obligations under the contract. EPIX continually reviews these estimates and, if any of these estimates change, adjustments are recorded in the

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period in which they become reasonably estimable. These adjustments could have a material effect on EPIX s results of operations.

EPIX recognizes as revenue the cash consideration received from Schering AG for efforts provided by EPIX in excess of EPIX s 50% development obligation. This revenue is recognized in the same period in which the costs are incurred. With respect to payments due to Schering AG, if any, in connection with the Vasovist development program, EPIX would recognize such amounts as a reduction to revenue at the time Schering AG performs the research and development activities for which EPIX is obligated to pay Schering AG.

On a monthly basis, EPIX calculates the revenue or reduction to revenue, as the case may be, with respect to the partnership with Schering AG for Vasovist as follows:

EPIX calculates its development costs directly related to Vasovist.

EPIX obtains cost reports, or an estimate of costs, from Schering AG for costs incurred by Schering AG related to the development of Vasovist during the same period. Where estimates are used, EPIX reviews the estimates and records adjustments in the subsequent quarter when EPIX receives actual results from Schering AG. To date, there have been no material adjustments.

EPIX multiplies its and Schering AG s development costs by approximately 50% based on the contractual allocation of work contemplated under the agreement.

EPIX then records the net difference as development revenue if the balance results in a payment to EPIX and negative revenue if the balance results in a payment to Schering AG.

The result of this calculation is that EPIX records revenue only for amounts it is owed by Schering AG in excess of 50% of development expenses of the project in the particular period and EPIX would record a reduction to revenue for any amounts owed to Schering AG in the particular period. To date, EPIX has not been required to make any payments to Schering AG.

The additional payments made by Schering AG to EPIX represent revenue to EPIX because EPIX is providing additional services to Schering AG which Schering AG was contractually obligated to perform. For example, EPIX performed substantial amounts of the work on behalf of Schering AG required to prepare the regulatory submission to the European regulatory authorities which would otherwise have been Schering AG s responsibility under the agreement. Had EPIX not performed these and other additional services, Schering AG would have had to contract a third party to perform the work or Schering AG would have had to perform the work itself.

EPIX recognizes product development revenue from Schering AG for the EP-2104R feasibility program in proportion to EPIX s actual cost incurred relative to EPIX s estimate of the total cost of the feasibility program. As estimated total cost to complete the program increases, revenue is adjusted downwards, and conversely, as estimated total cost to complete decreases, revenue is adjusted upwards. Total estimated costs of the feasibility program are based on management s assessment of costs to complete the program based on an evaluation of the portion of the program completed, costs incurred to date, planned program activities, anticipated program timelines and the expected future costs of the program. Adjustments to revenue are recorded if estimated costs to complete change materially from previous periods. To the extent that EPIX s estimated costs change materially, EPIX s revenues recorded under this activity could be materially affected and such change could have a material adverse effect on EPIX s operations in future periods. During the second quarter of 2005, EPIX s management increased its estimate of cost to complete the feasibility program to $16.1 million from its prior estimate. The increase in the cost to complete the feasibility program was primarily attributed to the additional patient safety monitoring related to amending the Phase IIa clinical trial protocols for EP-2104R announced in July 2005. The impact of increasing the estimated cost to complete the feasibility program resulted in a reduction in product development revenue of approximately $1.5 million, during the same period. During the fourth quarter of 2005, management lowered its estimate of the cost to complete the feasibility program from $16.1 million to $15.2 million at December 31, 2005 as a result of increased enrollment rate

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for this clinical trial. This latest reduction in the estimated total cost of the feasibility program resulted in an increase in product development revenue of $449,944, which was recognized in the fourth quarter of 2005.

Revenue under EPIX s research collaboration with Schering AG is recognized as services are provided, for which Schering AG is obligated to reimburse us.

Royalty revenue is recognized based on actual revenues reported to EPIX by Bracco, and Schering AG. Prior to the fourth quarter of 2004, EPIX recognized royalty revenue based on royalty reports received from Bracco or on Bracco s estimates, historical revenues and trends when royalty reports from Bracco were not available in a timely manner. In December 2004, EPIX was notified that Bracco was asserting that it had overstated its non-U.S. royalties to EPIX for the period 2001 to 2004, and that Bracco would offset the amount of the overstatement against its payments to us, including those triggered by FDA approval of MultiHance in the United States. Although EPIX is disputing Bracco s position regarding the overstatement, EPIX recognized the impact of Bracco s claimed overstatement by reducing EPIX s 2004 royalty revenue. In addition, because EPIX no longer believes that EPIX have a reasonable basis to make royalty estimates under the agreement with Bracco, EPIX has, commencing in the fourth quarter of 2004, only recognized royalty revenue from Bracco in the period in which royalty reports are received.

Research and Development Expenses

Research and development costs, including those associated with technology, licenses and patents, are expensed as incurred. Research and development costs include employee salaries and related costs, third party service costs, the costs of pre-clinical and clinical trial supplies and consulting expenses.

In order to conduct research and development activities and compile regulatory submissions, EPIX enters into contracts with vendors who render services over extended periods of time, generally one to three years. Typically, EPIX enters into three types of vendor contracts: time-based, patient-based or a combination thereof. Under a time-based contract, using critical factors contained within the contract, usually the stated duration of the contract and the timing of services provided, EPIX records the contractual expense for each service provided under the contract ratably over the period during which EPIX estimates the service will be performed. Under a patient-based contract, EPIX first determines an appropriate per patient cost using critical factors contained within the contract, which include the estimated number of patients and the total dollar value of the contract. EPIX then records expense based upon the total number of patients enrolled during the period. On a quarterly basis, EPIX reviews both the timetable of services to be rendered and the timing of services actually rendered. Based upon this review, revisions may be made to the forecasted timetable or to the extent of services performed, or both, in order to reflect EPIX s most current estimate of the contract. Adjustments are recorded in the period in which the revisions are estimable. These adjustments could have a material effect on EPIX s results of operations.

Employee Stock Compensation

For the period prior to January 1, 2006, EPIX elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* or APB 25, and related interpretations in accounting for EPIX s employee stock options under the intrinsic value method, rather than the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123R, *Share-Based Payments An Amendment of FASB Statement No. 123 and 95,* or SFAS 123R. Under APB 25, because the exercise price is equal to the market price of the underlying stock on the date of the grant, no compensation expense is recognized.

Beginning January 1, 2006, EPIX adopted the provisions of using the modified prospective transition method. Under the modified prospective transition method, financial statements for periods prior to the adoption date are not adjusted for the change in accounting. However, compensation expense is recognized, based on the requirements of SFAS 123R, for (a) all share-based payments granted after the

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effective date and (b) all awards granted to employees prior to the effective date that remain unvested on the effective date.

EPIX s financial results could be materially adversely affected by the required adoption of SFAS 123R, effective January 1, 2006, to the extent of the additional compensation expense that EPIX would have to recognize, which could change significantly from period to period based on several factors, including the number of stock options granted and fluctuations in EPIX s stock price and/or interest rates. See Note 2 of EPIX s financial statements for the year ended December 31, 2005 and Note 3 to the financial statements for the three months ended March 31, 2006.

Results of Operations

Three Months Ended March 31, 2006 versus 2005

Revenues

EPIX s current revenues arise principally from its collaboration agreements with Schering AG for Vasovist, EP-2104R and MRI discovery research; from license fee revenues relating to its agreements with Schering AG, Tyco/ Mallinckrodt and Bracco; and from royalties related to its agreements with Bracco and Schering AG. Revenues for the three months ended March 31, 2006 and 2005 were $1.7 million and $2.1 million, respectively. Revenues for 2006 consisted of $1.1 million of product development revenue from Schering AG, $458,000 of royalty revenue related to the Bracco and Schering AG agreements and $162,000 of license fee revenue related to the Schering AG, Tyco/ Mallinckrodt strategic collaboration and Bracco agreements. The decrease in total revenues of $384,000 for the three months ended March 31, 2006 compared to the same period last year was primarily attributed to lower product development revenue. The product development revenue decrease of $393,000 resulted from the lower reimbursable costs incurred by EPIX related to Vasovist, lower costs for the EP-2104R proof-of-concept program, for which enrollment for its Phase II trial was completed during the first quarter of 2006, and reduced spending for its research projects because of the reduction in force that occurred in January 2006.

Research and Development Expenses

EPIX s research and development expenses arise from its development activities for Vasovist and EP-2104R and from its discovery research programs. Research and development expenses for the three months ended March 31, 2006 were $4.0 million compared to $5.5 million for the same period in 2005. The decrease of approximately $1.5 million was attributed to lower levels of spending on Vasovist and EP-2104R development programs and from lower expenditures on its MRI and therapeutics research programs, partly offset by the non-cash expense of approximately $519,000 resulting from the initial recognition of stock compensation related to the implementation of SFAS 123R. Spending during the first quarter of 2006 for Vasovist primarily involved reviewing EPIX s path forward with the FDA and considering all options, including formally appealing the FDA s decision to require an additional clinical trial and/or conducting one or more additional clinical trials. With the completion of enrollment on the Phase IIa clinical trial for EP-2104R, the rate of spending during the current quarter for this development program also decreased. Lastly, the reduction-in-force, which was announced in the fourth quarter of 2005 and implemented in the first quarter of 2006, significantly reduced EPIX s spending activities for both its MRI and therapeutics projects, all in an effort to control costs and improve the focus of its operations in order to reduce losses and conserve cash.

The following table summarizes the primary components of EPIX s research and development expenses for its principal research and development programs for the three months ended March 31, 2005 and 2006.

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Research and Development	Q1 2005	Q1 2006
Vasovist	$ 1,611,160	$ 1,221,032
EP-2104R	1,410,916	751,862
Other research	2,511,075	2,020,067
Total research and development expense	5,533,151	3,992,961

The decrease in both Vasovist and EP-2104R development expenses for the three months ended March 31, 2006 compared to the three months ended March 31, 2005 was primarily due to a decrease in personnel associated the reduction-in-force that took place in January 2006 and lower outside expenses related to contract services and consultants required to support both efforts. The decrease in other research expenses for the three months ended March 31, 2005 compared to the three months ended March 31, 2006 was primarily due to a decrease in personnel costs for both MRI imaging and therapeutic research programs.

The timeframe and costs involved in developing its products, including Vasovist and EP-2104R, and gaining regulatory approval for and commercializing its products may vary greatly from current estimates for several reasons, including the following:

EPIX conducts its clinical trials in accordance with specific protocols, which it has filed with the FDA or other relevant authorities. If the FDA requires EPIX to perform additional trials, to perform additional procedures in its trials or to increase patient numbers in those trials, EPIX could incur significant additional costs and additional time to complete its clinical trials, assuming EPIX is able to reach agreement with the FDA on protocols for any additional studies or procedures.

EPIX relies on third-party clinical trial centers to find suitable patients for its clinical trial program. If these clinical trial centers do not find suitable patients in the timeframe for which EPIX has planned, EPIX will not be able to complete its clinical trials according to its expected schedule.

EPIX relies on third-party contract research organizations for a variety of activities in its development program, including conducting blinded reading activities, lab testing and analysis of clinical samples, data collection, cleanup and analysis and drafting study reports and regulatory submissions.

The length of time that the FDA or other regulatory authorities take to review EPIX s regulatory submissions and the length of time it takes EPIX to respond to the FDA or other regulatory authorities questions can also vary widely. In January 2005, EPIX received an approvable letter from the FDA for Vasovist in which the FDA requested additional clinical trials to demonstrate efficacy prior to approval. In May 2005, EPIX submitted its response to the approvable letter received from the FDA in January 2005 and the response was accepted by the FDA as a complete response in June 2005. In November 2005, EPIX received a second approvable letter from the FDA for Vasovist in which the FDA again requested an additional clinical trial and a re-read, or reanalysis, of images obtained in certain of the previously completed Phase III trials by a new group of radiologists. EPIX has filed a formal appeal with the FDA asking the FDA to approve Vasovist and to utilize an advisory committee as part of the appeal process. The process of obtaining agreement with the FDA for conducting necessary clinical trials, and the outcome of EPIX s appeal of the second approvable letter is subject to significant uncertainties in terms of timing, costs and outcome.

EPIX s partner, Schering AG, is responsible for the commercial launch and marketing of Vasovist in Europe, where Vasovist has been approved for commercial sale and is currently being marketed by Schering AG, and in

the United States, where Vasovist is not approved for commercial sale.

EPIX could incur increased clinical development costs if it experiences delays in clinical trial enrollment, delays in the evaluation of clinical trial results or delays in regulatory approvals. In addition, EPIX faces significant uncertainty with respect to its ability to enter into strategic collaborations with

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respect to its product candidates. As a result of these factors, it is difficult to estimate the cost and length of a clinical trial. EPIX is unable to accurately and meaningfully estimate the cost to bring a product to market due to the variability in length of time to develop and obtain regulatory approval for a product candidate.

Under EPIX s EP-2104R agreement, Schering AG made fixed payments to EPIX totaling approximately $9.0 million over a two year period, which was initially intended to cover most of its costs of the feasibility program for EP-2104R. The amount of expenditure necessary to execute the feasibility program is subject to numerous uncertainties, which may adversely affect EPIX s cash outlay, net of Schering AG s reimbursement to it. At year end 2005, EPIX lowered its estimate of costs to complete the feasibility program from $16.1 million to $15.2 million because it was able to add new clinical trial sites and take other steps to improve enrollment. EPIX has completed this clinical trial. Schering AG had an option to exclusively license EP-2104R, which it declined to exercise. As a result of Schering AG deciding not to exercise this option, EPIX intends to pursue a collaboration for the continued development of EP-2104R with other potential partners. The future clinical development plan of EP-2104R is uncertain and EPIX cannot estimate what portions of the future development it will undertake and what portions of the future development a potential partner, if any, will undertake.

General and Administrative Expenses

General and administrative expenses, which consist primarily of salaries, benefits, outside professional services and related costs associated with EPIX s executive, finance and accounting, business development, marketing, human resources, legal and corporate communications activities, were $2.3 million for the three months ended March 31, 2006 as compared to $2.7 million for the three months ended March 31, 2005. The decrease of $405,000 was primarily attributed to lower spending by EPIX and Schering AG for Vasovist marketing, lower consulting fees and to lower staff levels resulting from the reduction in force that took place in January 2006, partly offset by the non-cash expense of approximately $274,000 resulting from the initial recognition of stock compensation. General and administrative expenses also include royalties payable to Massachusetts General Hospital, or MGH, based on sales by Bracco of MultiHance. Royalty expenses totaled $44,000 and $20,000 for the three months ended March 31, 2006 and 2005, respectively.

Restructuring Costs

Restructuring costs for the three months ended March 31, 2006 were $290,000 as compared to $0 for the three months ended March 31, 2005. The current quarter s restructuring costs represent a continuation of planned actions taken by management to control costs and improve the focus of operations in order to reduce losses and conserve cash. In the fourth quarter of 2005, EPIX announced a planned reduction in its workforce by 48 employees, or approximately 50%, in response to the FDA s second approvable letter regarding Vasovist. The reductions, which were completed in January 2006, affected both EPIX s research and development and the general and administrative areas. During the most recent quarter, EPIX recognized additional restructuring costs related to vacating space in some of its facilities and subsequently sub-leasing that space. EPIX also recorded an impairment charge related to leasehold improvements located in that same space as well as excess lab and office equipment in its facilities, and additional severance related costs.

Interest Income and Interest Expense

Interest income for the three months ended March 31, 2006 was $1.3 million as compared to $846,000 for the three months ended March 31, 2005. The increase of $459,000 was primarily due to higher interest rates on our invested cash, cash equivalents and marketable securities during the period. Interest expense for the three months ended March 31, 2006 and 2005 was $869,000 and $911,000, respectively. The decrease in interest expense of $41,000 for the three months ended March 31, 2006 resulted primarily from the decision not to draw down the Schering AG loan facility at the end of 2005. EPIX subsequently terminated the loan facility with Schering AG in January 2006.

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Provision for Income Taxes

The provision for income taxes, which represents Italian income taxes related to the Bracco agreement, was $44,000 for the three months ended March 31, 2006 as compared to $0 for the three months ended March 31, 2005. Because the remaining balance of prepaid royalties from Bracco was fully offset at the end of the third quarter of 2005, Italian income taxes must now be withheld on Bracco royalties on sales of MultiHance that are paid to EPIX. EPIX expects to have Italian income taxes withheld on all Bracco royalties for the remainder of the agreement, which is expected to end in the E.U. midway through 2006 and in early 2007 for the U.S.

Year ended December 31, 2005 and 2004

Revenues

Revenues for the years ended December 31, 2005 and 2004 were $7.2 million and $12.3 million, respectively. Revenues for 2005 consisted of $4.2 million for product development revenue from Schering AG, $2.3 million for royalty revenue related to the Bracco and Schering AG agreements and $661,000 for license fee revenue related to the Schering AG, Tyco/ Mallinckrodt strategic collaboration and Bracco agreements. The decrease in total revenues of $5.1 million for the year ended December 31, 2005 compared to the year ended December 31, 2004 was attributed to lower product development and license fee revenues, partly offset by higher royalty revenue. The lower product development revenue accounted for $3.4 million of the decrease between the two periods and resulted from: (a) revenue adjustments related to the overall increases in the costs and timeline to complete the EP-2104R development program that were directly attributed to amending EPIX s Phase IIa clinical trial protocols for EP-2104R to include additional patient safety monitoring; (b) lower costs incurred in 2005 compared to 2004 for the EP-2104R development program resulting in lower recognition of revenue during 2005; and (c) lower reimbursable costs from Schering AG on the Vasovist program. The overall reduction in product development revenue related to the Vasovist and EP-2104R programs was partly offset by slightly higher revenue under the research collaboration agreement with Schering AG. The increase in royalty revenue in 2005 was primarily attributed to the adjustment recorded by EPIX at the end of 2004 to reflect Bracco s revised determination of sales and its royalty overpayment assertion. Royalty revenue in 2005 included royalties from sales by Bracco of MultiHance and Schering AG s sales of Primovist. The license fee revenue in 2005 was lower than in 2004 primarily because of a non-repetitive Bracco FDA milestone that was recognized in 2004 and, to a lesser extent, changes made in 2005 to EPIX s estimate of the approval date for Vasovist in the United States based on FDA actions.

Research and Development Expenses

EPIX s research and development expenses arise from EPIX s development activities for Vasovist and EP-2104R and from EPIX s discovery research programs. Research and development expenses for the year ended December 31, 2005 were $20.8 million compared to $21.9 million for the same period in 2004. The decrease in research and development expenses of $1.1 million during the year ended December 31, 2005 resulted from lower spending for the Vasovist and EP-2104R development programs, partly offset by higher spending for EPIX s MRI and therapeutics research programs.

The following table summarizes the primary components of EPIX s research and development expenses for its principal research and development programs for the years ended December 31, 2004 and 2005.

Research and Development	**2004**	**2005**
Vasovist	$ 7,767,945	$ 5,311,856
EP-2104R	7,125,252	5,143,486
Other research	6,980,794	10,320,429
Total research and development expense	21,873,991	20,775,771

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The decrease in both Vasovist and EP-2104R development expenses from 2004 to 2005 was primarily due to a reduction and subsequent shifting of personnel and lower outside expenses related to contract services required for clinical trial activities related to both projects. The increase in other research expenses from 2004 to 2005 was primarily due to an expansion in both personnel and outside expenses related to contract service and consultants for research activities in the both MRI imaging and therapeutic research.

The timeframe and costs involved in developing EPIX s product candidates, including Vasovist and EP-2104R, and gaining regulatory approval for and commercializing EPIX s product candidates may vary greatly from current estimates for several reasons, including the following:

EPIX conducts EPIX s clinical trials in accordance with specific protocols, which EPIX has filed with the FDA or other relevant authorities. If the FDA requires EPIX to perform additional trials, to perform additional procedures in EPIX s trials or to increase patient numbers in those trials, EPIX could incur significant additional costs and additional time to complete EPIX s clinical trials, assuming EPIX is able to reach agreement with the FDA on protocols for any additional trials or procedures.

EPIX relies on third party clinical trial centers to find suitable patients for EPIX s clinical trial program. If these clinical trial centers do not find suitable patients in the timeframe for which EPIX has planned, EPIX will not be able to complete EPIX s clinical trials according to EPIX s expected schedule.

EPIX relies on third party contract research organizations for a variety of activities in EPIX s development program, including conducting blinded reading activities, lab testing and analysis of clinical samples, data collection, cleanup and analysis and drafting study reports and regulatory submissions.

The length of time that the FDA or other regulatory authorities take to review EPIX s regulatory submissions and the length of time it takes EPIX to respond to the FDA or other regulatory authorities questions can also vary widely. In January 2005, EPIX received an approvable letter from the FDA for Vasovist in which the FDA requested additional clinical studies to demonstrate efficacy prior to approval. In May 2005, EPIX submitted EPIX s response to the approvable letter received from the FDA in January 2005 and it was accepted by the FDA as a complete response in June 2005. In November 2005, EPIX received a second approvable letter from the FDA for Vasovist in which the FDA again requested an additional clinical trial and a re-read, or reanalysis, of images obtained in certain of the previously completed Phase III trials by a new group of radiologists. EPIX has filed a formal appeal with the FDA asking the FDA to approve Vasovist and to utilize an advisory committee as part of the appeal process. The process of obtaining agreement with the FDA for conducting necessary clinical trials and the outcome of EPIX s appeal of the second approvable letter is subject to significant uncertainties in terms of timing, costs and success.

EPIX s partner, Schering AG, is responsible for the commercial launch and marketing of Vasovist in Europe, where Vasovist has been approved for commercial sale and is currently marketed by Schering AG, and in the United States, where Vasovist is not approved for commercial sale.

EPIX could incur increased clinical development costs if it experiences delays in clinical trial enrollment, delays in the evaluation of clinical trial results or delays in regulatory approvals. In addition, EPIX faces significant uncertainty with respect to its ability to enter into strategic collaborations with respect to its product candidates. As a result of these factors, it is difficult to estimate the cost and length of a clinical trial. EPIX is unable to accurately and meaningfully estimate the cost to bring a product to market due to the variability in length of time to develop and obtain regulatory approval for a product candidate.

Under EPIX s EP-2104R agreement, Schering AG has made fixed payments to EPIX totaling approximately $9.0 million over a two year period, which was initially intended to cover most of EPIX s costs of the feasibility program. The amount of expenditure necessary to execute the feasibility program is

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subject to numerous uncertainties, which may adversely affect EPIX s cash outlay, net of Schering AG s reimbursement to us. In July 2005, EPIX announced that EPIX would be amending EPIX s Phase IIa proof-of-concept clinical trial protocols for EP-2104R to include additional patient safety monitoring based on a review by the FDA of data from a 14-day, repeat dose pre-clinical toxicology study. The additional patient monitoring in the Phase IIa trials resulted in slower than expected enrollment in this trial and extended the timeline and increased the estimated costs for EP-2104R development. Based on the latest review of the EP-2104R feasibility program, management lowered its estimate of cost to complete the feasibility program from $16.1 million to $15.2 million at December 31, 2005. EPIX added clinical trial sites and took other steps to improve enrollment in this trial. EPIX has since completed this trial.

General and Administrative Expenses

General and administrative expenses, which consist primarily of salaries, benefits, outside professional services and related costs associated with EPIX s executive, finance and accounting, business development, marketing, human resources, legal and corporate communications activities, were $10.2 million for the year ended December 31, 2005 as compared to $10.5 million for the year ended December 31, 2004. The decrease in spending of $251,000 by EPIX resulted from lower marketing expenses related to Vasovist that was partly offset by higher liability insurance premiums and higher corporate administration, primarily attributed to legal costs, combined with higher business development costs. General and administrative expenses also include royalties payable to Massachusetts General Hospital, or MGH, based on sales by Bracco of MultiHance. Royalty expenses totaled $98,000 and $31,000 for the years ended December 31, 2005 and 2004, respectively.

Restructuring Costs

Restructuring costs for the year ended December 31, 2005 were $1.0 million as compared to $0 for the year ended December 31, 2004. The restructuring costs related to planned actions taken by management to control costs and improve the focus of operations in order to reduce losses and conserve cash. EPIX announced a planned reduction in its workforce by approximately 50%, in response to the FDA s second approval letter regarding Vasovist. The reductions, which were completed in January 2006, affected both the research and development and the general and administrative areas of EPIX. EPIX reported a charge of approximately $1.0 million for severance and related benefits as of December 31, 2005. Substantially all payments related to the separation of employment were completed in the first quarter of 2006.

Interest Income and Interest Expense

Interest income for the year ended December 31, 2005 was $4.1 million as compared to $2.0 million for the year ended December 31, 2004. The increase of $2.1 million was primarily due to higher interest rates and higher average levels of invested cash, cash equivalents and marketable securities during 2005 as a result of receipt of the net proceeds from the issuance of $100.0 million convertible senior notes in June 2004. Interest expense for the years ended December 31, 2005 and 2004 was $3.6 million and $2.1 million, respectively. The increase in interest expense of $1.5 million for the year ended December 31, 2005 directly resulted from the issuance of convertible senior notes in June 2004, partly offset by the reduction in the outstanding balance of interest-bearing prepaid royalties from Bracco and a reduction in interest expense resulting from management s decision not to drawdown the loan facility from Schering AG at the end of 2005. In January 2006, EPIX completed an agreement with Schering AG to terminate the loan facility.

Provision for Income Taxes

The provision for income taxes, which represents Italian income taxes related to the Bracco agreement, was $42,000 for the year ended December 31, 2005 as compared to $100,000 for the year ended December 31, 2004. Since the remaining balance of prepaid royalties were offset at the end of the third quarter of 2005, Italian income taxes needed to be withheld on Bracco royalties for MultiHance sales

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paid to EPIX during the fourth quarter of 2005. EPIX expects to have Italian income taxes withheld on Bracco royalties for the remainder of the agreement, which will end in the E.U. midway through 2006 and in early 2007 for the United States.

Years ended December 31, 2004 and 2003

Revenues

Revenues for the years ended December 31, 2004 and 2003 were $12.3 million and $13.5 million, respectively. Revenues for 2004 consisted of $7.6 million of product development revenue from Schering AG, $4.0 million of license fee and milestone revenue related to the Bracco agreement and to the Schering AG and Tyco/ Mallinckrodt strategic agreements, and $627,000 of royalty revenue related to the Bracco agreement. The decrease in revenues of $1.2 million for the year ended December 31, 2004 compared to the same period in 2003 resulted from reduced product development activities of $1.9 million, primarily from Vasovist and lower royalties of $1.8 million from Bracco, partly offset by higher license fee revenue of $2.5 million resulting from the milestone related to Bracco s announcement of the FDA s approval of MultiHance in the United States. The lower royalties were primarily attributed to EPIX s decision to recognize the full $1.8 million amount reflected in Bracco s position taken in December 2004 that it had overstated non-U.S. royalties over the previous four year period from 2001 to 2004. EPIX has challenged Bracco s underpayment, Bracco s right to recalculate previous royalties under the license agreement and the substance of Bracco s position that royalties were overstated.

Research and Development Expenses

Research and development expenses for the year ended December 31, 2004 were $21.9 million as compared to $28.0 million for the same period in 2003. The decrease of $6.1 million was primarily attributable to decreased costs related to the completion of the NDA submission for Vasovist and the intellectual property agreement entered into with Dr. Martin Prince in the fourth quarter of 2003, partly offset by higher spending for EP-2104R and other research programs.

The following table summarizes the primary components of EPIX s research and development expenses for its principal research and development programs for the years ended December 31, 2003 and 2004.

Research and Development	**2003**	**2004**
Vasovist	$ 17,734,396	$ 7,767,945
EP-2104R	4,958,513	7,125,252
Other research	5,330,612	6,980,794
Total research and development expense	28,023,522	21,873,991

The decrease in both Vasovist development expenses from 2003 to 2004 was primarily due to a reduction and subsequent shifting of personnel and lower costs for contract services and consultants required for support of the Phase III clinical trial activity in 2003. The increase in EP-2104R development expenses from 2003 to 2004 was primarily due to an expansion in both personnel and outside expenses related to the Phase I EP-2104R clinical trial that began in mid-2003. The increase in other research expenses from 2003 to 2004 was primarily due to an expansion in both personnel and outside contractual services of research activities for MRI imaging and initiation of a therapeutic research program.

General and Administrative Expenses

General and administrative expenses were $10.5 million for the year ended December 31, 2004 as compared to $6.6 million for the year ended December 31, 2003. The increase of $3.9 million was primarily attributable to higher spending both by EPIX and by Schering AG for Vasovist marketing, higher business development expenses, higher legal expenses related to patent and intellectual property filings, increased compliance costs due to the internal control review required by the Sarbanes-Oxley Act

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and to higher liability insurance premiums. General and administrative expenses also include royalties payable to MGH based on sales by Bracco of MultiHance. Royalty expenses totaled $31,000 and $103,000 for the years ended December 31, 2004 and 2003.

Interest Income and Interest Expense

Interest income for the year ended December 31, 2004 was $2.0 million as compared to $664,000 for the year ended December 31, 2003. The increase of approximately $1.3 million was primarily due to higher average levels of invested cash, cash equivalents and marketable securities during the period related to net proceeds from the issuance of $100.0 million convertible senior notes in June 2004. Interest expense for the years ended December 31, 2004 and 2003 was $2.1 million and $295,000, respectively. The increase in interest expense of $1.8 million during the year ended December 31, 2004 resulted from the issuance of convertible senior notes in June 2004 and the drawdown of the entire $15.0 million loan facility made available to EPIX by Schering AG as part of the joint MRI research collaboration entered into in May 2003, partly offset by the reduction in the balance of interest-bearing prepaid royalties from Bracco. The entire principal balance of the loan facility, which was $15.0 million as of December 31, 2004, plus accrued interest, was repaid in January 2005, and the loan facility has been terminated.

Provision for Income Taxes

The provision for income taxes, which represents Italian income taxes related to the Bracco agreement, was $100,000 for the year ended December 31, 2004 as compared to $80,000 for the year ended December 31, 2003. Beginning in July 2003 and continuing throughout 2004, a portion of royalty revenue earned was offset against the prepaid FDA approval license fee, thereby reducing both payments to EPIX and the requirement to withhold foreign taxes.

Liquidity and Capital Resources

EPIX s principal sources of liquidity consist of cash, cash equivalents and available-for-sale marketable securities of $118.8 million at March 31, 2006 as compared to $124.7 million at December 31, 2005. The decrease in cash, cash equivalents and available-for-sale marketable securities was primarily attributed to funding of ongoing operations.

EPIX used approximately $5.3 million of net cash to fund operations for the three months ended March 31, 2006, which compares to $6.1 million for the same period in 2005. The net use of cash to fund operations during the three months ended March 31, 2006 resulted from the net loss of $4.5 million, which included non-cash expenses for amortization and depreciation of $410,000 and the recognition of stock compensation expense of $793,000 as a result of the adoption of SFAS 123R in January 2006. Other significant increases in net working capital resulted from the combined reductions in contract advances of $688,000 and accounts payable/accrued expenses of $1.1 million. The reduction in contract advances resulted from lower Vasovist development and marketing costs incurred by Schering AG and to the offset of funds previously received from Schering AG for the EP-2104R program. Lower accounts payable and accrued expenses were primarily attributed to the general reduction in development costs, including clinical trial activities.

EPIX s investing activities resulted in net cash provided of $8.7 million during the three months ended March 31, 2006 as compared to net cash provided of $1.8 million for the same period last year. The contribution of $32.2 million of net proceeds from the sale and redemption of maturing marketable securities, partly offset by the reinvestment into marketable securities of available cash, and the increase in other assets resulting from the capitalization of transaction costs related to the merger, accounted for the entire increase in other investing activities during the three months ended March 31, 2006. During the same three-month period last year, EPIX sold or redeemed available-for-sale marketable securities of $19.4 million, partly offset by the cash used to purchase $17.5 million of available-for-sale marketable securities that was primarily funded from the rollover of securities within its portfolio. The increase in other assets resulting from the capitalization of transaction cost related to merger. EPIX had no capital

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expenditures during the three months ended March 31, 2006, compared to $158,000 in capital expenditures for the same period last year. The higher capital expenditures in 2005 were primarily attributed to leasehold improvements.

EPIX had no cash provided or used from financing activities during the three months ended March 31, 2006 because of its decision to terminate the loan facility with Schering AG in January 2006. During the three months ended March 31, 2005, the primary sources of financing came from the draw down of the loan facility of $15.0 million with Schering AG, which was outstanding at March 31, 2005 and the proceeds from stock option exercises of $437,000. Also during that same period, EPIX repaid $15.0 million on its loan facility with Schering AG, which was outstanding at December 31, 2004.

As of December 31, 2005, cash, cash equivalents and available-for-sale marketable securities were $124.7 million as compared to $164.4 million at December 31, 2004. The decrease in cash, cash equivalents and available-for-sale marketable securities was primarily attributed to funding of ongoing operations and to management s decision not to drawdown the $15.0 million loan facility from Schering AG at the end of 2005.

EPIX used approximately $24.3 million of net cash to fund operations for the year ended December 31, 2005, which compares to $22.5 million for the same period in 2004. The net use of cash to fund operations during the year ended December 31, 2005 resulted from the net loss of $24.3 million, combined with a reduction in deferred revenue of $2.4 million, and was offset by decreases in accounts receivable of $173,000 and prepaid expenses of $238,000, an increase in accounts payable of $330,000 and to non-cash expenses, primarily comprised of depreciation and amortization of $1.7 million. The reduction in deferred revenue resulted from the offset of prepaid royalties from Bracco, plus the recognition of other license fee revenue related to payments from Schering AG, Tyco/ Mallinckrodt and Bracco, which are being amortized into revenue in accordance with the requirements of SAB 104. The decrease in accounts receivable was primarily attributed to lower pre-launch marketing costs reimbursable by Schering AG. The decrease in prepaid expenses resulted from the change in the timing of insurance premium payments. The increase in accounts payable was due to a number of larger clinical trial invoices that came in late in the year related to the EP-2104R development program. For the year ended December 31, 2004, net cash used for operating activities of $22.5 million was primarily attributable to EPIX s net loss of $20.4 million, combined with reduction in deferred revenue of $3.7 million, a reduction in accrued expenses of $1.3 million and a reduction in accounts payable of $1.0 million, partly offset by an increase in contract advances of $3.0 million. The reduction in deferred revenue resulted from royalty revenues from sales by Bracco of MultiHance, which were offset against advanced payments, plus the recognition of other license fee revenue related to payments from Schering AG, Tyco/ Mallinckrodt and Bracco, which are being amortized into revenue in accordance with the requirements of SAB 104. The decrease in accrued expenses was due to the completion of pre-clinical development activities in 2004 and to the issuance of common stock to Dr. Martin R. Prince in January 2004 to offset an accrual in 2004 in connection with the intellectual property agreement entered into in November of 2003. The decrease in accounts payable is due to lower year-end spending levels compared to 2004. The increase in contract advances primarily related to Schering AG s funding of both EPIX s and Schering AG s Vasovist pre-launch activities. Also during 2004, EPIX received a $2.5 million milestone payment from Schering AG related to the acceptance of the filing of the NDA with the FDA for Vasovist. Immediately following this receipt, EPIX paid Tyco/ Mallinckrodt $2.5 million in recognition of the same milestone. These payments were offset in EPIX s Statements of Operations, resulting in no impact on revenues, expenses or net loss.

EPIX s investing activities resulted in net cash provided of $37.8 million for the year ended December 31, 2005 as compared to net cash used of $50.1 million for the same period last year. During the year ended December 31, 2005, EPIX sold or redeemed available-for-sale marketable securities of $127.6 million, partly offset by the cash used to purchase $88.6 million of available-for-sale marketable securities that was primarily funded from the rollover of securities within EPIX s portfolio. During the same period in 2004, EPIX purchased $93.7 million of available-for-sale marketable securities, which was partly funded from the funds received from the convertible debt issuance and partly offset by cash generated from the redemption of available-for-sale marketable securities of $45.6 million. Other investing

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activities included capital expenditures of $1.2 million for the year ended December 31, 2005 as compared to $2.1 million for the same period last year. The higher capital expenditures in 2004 were primarily attributed to leasehold improvements and to the acquisition of equipment, including lab equipment, computer equipment and software, related to the refurbishment of EPIX s laboratory space.

Cash used in financing activities was $14.4 million for the year ended December 31, 2005 as compared to cash provided of $109.3 million for the year ended December 31, 2004. The primary usage of cash during the year ended December 31, 2005 was for the cumulative repayment of $60.0 million on EPIX s loan facility with Schering AG. Sources of financing during the same period came from the cumulative drawdown of the loan facility of $45.0 million with Schering AG and proceeds from stock option exercises and EPIX s Employee Stock Purchase Plan of $578,000. There was no drawdown of the loan facility from Schering AG at the end of 2005. In January 2006, EPIX and Schering AG agreed to terminate the loan facility. During the year ended December 31, 2004, EPIX received net proceeds of $96.4 million from the issuance of convertible senior notes and another $5.5 million from stock option exercises and proceeds from EPIX s Employees Stock Purchase Plan. In addition, EPIX cumulatively borrowed $52.5 million and repaid $45.0 million during the year ended December 31, 2004 on EPIX s loan facility with Schering AG.

EPIX currently receives quarterly cash payments from Schering AG for its share of development costs of Vasovist and for its share of research costs on EPIX s joint MRI research collaboration. EPIX also receives monthly interest income on EPIX s cash, cash equivalents and available-for-sale marketable securities. EPIX is also scheduled to receive quarterly royalty payments from Bracco for a portion of the royalty revenue actually earned from the sales of MultiHance. With the expiration in 2006 of certain patents related to the sublicense with Bracco, EPIX expects to receive lower royalty payments from Bracco beginning in the second half of 2006. In December 2004, Bracco asserted that it had overstated non-U.S. royalties to EPIX for the period 2001 to 2004 and that it would offset the amount of the overstatement against its payment to us, including those triggered by FDA approval of MultiHance in the United States. Although EPIX still is disputing Bracco s position, EPIX recognized the impact of Bracco s claimed overstatement by reducing 2004 royalty revenues. EPIX will also be entitled to receive a royalty payment from sales of Vasovist by Schering AG following the commercial launch of the product in the E.U., which began on a country-by-country basis in the second quarter of 2006. Other potential cash inflows include: a milestone payment of $1.3 million from Schering AG, which is dependent on the FDA s approval of Vasovist, and up to $22.0 million in additional milestone payments from Schering AG as well as EPIX s share of the profits earned on sales of Vasovist worldwide. As a result of Schering AG deciding not to exercise its option for the development of EP-2104R, EPIX no longer expects to receive funds from Schering AG for this program. Additional future cash flows from EPIX s MRI research collaboration with Schering AG depend on the success of the research program and the success of further development, regulatory and commercialization activities with respect to any products generated. In October 2005, EPIX announced that an amendment to the research collaboration agreement had been entered into with Schering AG. This amendment narrowed the definition of the field of EPIX s collaboration with Schering AG. This research collaboration expired in May 2006. EPIX expects to discuss the disposition of current research programs with Schering AG prior to expiration of the collaboration and to continue to advance at least some of these programs either unilaterally or with another partner. Pursuant to the license agreement between EPIX and Schering AG, EPIX is entitled to a worldwide royalty on sales of certain Schering AG products covered by the agreement.

Known outflows, in addition to EPIX s ongoing research and development and general and administrative expenses, include the semi-annual royalties that EPIX owe to MGH on sales by Bracco of MultiHance; a milestone payment of $2.5 million owed to Tyco/ Mallinckrodt, which is dependent on the FDA s approval of Vasovist; a share of profits due Tyco/ Mallinckrodt on sales of Vasovist worldwide; a royalty to Daiichi on sales of Vasovist in Japan and a royalty due MGH on EPIX s share of the profits of Vasovist worldwide. In addition, as a result of Schering AG deciding not to exercise its option for the development of EP-2104R, EPIX may be required to incur significant additional expenses to continue the development of EP-2104R, even if it successfully enters into a new collaboration arrangement for

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EP-2104R. With the expiration in 2006 of certain patents related to the license with MGH, EPIX expects to reduce EPIX s royalty payments to MGH beginning in the second half of 2006. As of December 31, 2005, all remaining unearned prepaid royalties that would be due to Bracco upon termination of EPIX s license agreement have been offset against earned royalties.

EPIX expects that EPIX s cash, cash equivalents and marketable securities on hand as of December 31, 2005 will be sufficient to fund EPIX s operations for at least the next several years. If, however, EPIX considers other opportunities, changes its planned activities or is required to pay all or a substantial portion of the milestone payment in cash under the merger agreement it may require additional funding before currently expected. If holders of EPIX s convertible senior notes require redemption of the notes, EPIX may be required to repay $100.0 million upon any redemption. EPIX s future liquidity and capital requirements will depend on numerous factors, including the following: the progress and scope of clinical and pre-clinical trials; the timing and costs of filing future regulatory submissions; the timing and costs required to receive both U.S. and foreign governmental approvals; the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights; the extent to which EPIX s products, if any, gain market acceptance; the timing and costs of product introductions; the extent of EPIX s ongoing and new research and development programs; the costs of training physicians to become proficient with the use of EPIX s potential products; and, if necessary, once regulatory approvals are received, the costs of developing marketing and distribution capabilities. If EPIX completes the merger, Predix does not have significant revenues and has significant product development expenses which will accelerate EPIX s use of funds and its need for additional funding.

Because of anticipated spending for the continued development of Vasovist and EP-2104R and to support selective research programs, EPIX does not expect positive cash flow from operating activities for any future quarterly or annual period prior to commercialization of Vasovist in the United States.

The following table represents payments due under contractual obligations and commercial commitments as of December 31, 2005:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Long-term debt obligations, including interest payments	$ 116,375,000	$ 3,000,000	$ 6,000,000	$ 6,000,000	$ 101,375,000
Operating lease obligations	2,627,996	1,303,059	1,324,937		
Purchase obligations	5,933,866	5,764,188	169,678		
Total	$ 124,936,862	$ 10,067,247	$ 7,494,615	$ 6,000,000	$ 101,375,000

EPIX has not entered into any material contractual obligations since the presentation its contractual obligations table as set forth above.

EPIX has incurred tax losses to date and therefore have not paid significant federal or state income taxes since inception. As of December 31, 2005, EPIX had federal net operating loss carryforwards of approximately $180.4 million available to offset future taxable income. These amounts expire at various times through 2025. As a result of ownership changes resulting from sales of equity securities, EPIX s ability to use the net operating loss carryforwards is subject to limitations as defined in Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code. EPIX currently estimates that the annual limitation on EPIX s use of net operating losses generated through May 31, 1996 to be approximately $900,000. Pursuant to Sections 382 and 383 of the Code, the change in ownership resulting from public equity offerings in 1997 and any other future ownership changes may further limit utilization of losses and credits in any one year. EPIX also is eligible for research and development tax

credits that can be carried forward to offset federal taxable income. The annual limitation and the timing of attaining profitability may result in the expiration of net operating loss and tax credit carryforwards before utilization.

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Certain Factors That May Affect Future Results of Operations

This report contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on management s current expectations and are subject to a number of factors and uncertainties, which could cause actual results to differ materially from those described in the forward-looking statements. EPIX cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including, but not limited to, the following: the uncertainties associated with pre-clinical studies and clinical trials; EPIX s lack of product revenues; EPIX s history of operating losses and accumulated deficit; EPIX s lack of commercial manufacturing experience and commercial sales, distribution and marketing capabilities; reliance on suppliers of key materials necessary for production of EPIX s products and technologies; the potential development by competitors of competing products and technologies; EPIX s dependence on existing and potential collaborative partners, and the lack of assurance that EPIX will receive any funding under such relationships to develop and maintain strategic alliances; the lack of assurance regarding patent and other protection for EPIX s proprietary technology; governmental regulation of EPIX s activities, facilities, products and personnel; the potential delays or failure in receiving necessary approvals; the dependence on key personnel; uncertainties as to the extent of reimbursement for the costs of EPIX s potential products and related treatments by government and private health insurers and other organizations; the potential adverse impact of government-directed health care reform; the risk of product liability claims; and economic conditions, both generally and those specifically related to the biotechnology industry. As a result, EPIX s future development efforts involve a high degree of risk. For further information, refer to the more specific risks and uncertainties discussed throughout this joint proxy statement/ prospectus.

Quantitative and Qualitative Disclosures About Market Risk

The objective of EPIX s investment activities is to preserve principal, while at the same time maximizing yields without significantly increasing risk. To achieve this objective, in accordance with this investment policy, EPIX invests its cash in a variety of financial instruments, principally restricted to government-sponsored enterprises, high-grade bank obligations, high-grade corporate bonds and certain money market funds. These investments are denominated in U.S. dollars.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, EPIX s future investment income may fall short of expectations due to changes in interest rates or EPIX may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. A hypothetical 10% increase or decrease in interest rates would result in a decrease in the fair market value of EPIX s total portfolio of approximately $92,000, and an increase of approximately $92,000, respectively, at March 31, 2006.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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EPIX PRINCIPAL STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of EPIX common stock as of June 28, 2006 for (a) the executive officers named in the Summary Compensation Table elsewhere in this joint proxy statement/ prospectus, (b) each of EPIX s directors and director nominees, (c) all of EPIX s current directors and executive officers as a group and (d) each stockholder known by EPIX to own beneficially more than 5% of EPIX common stock. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to the securities. EPIX deems shares of EPIX common stock that may be acquired by an individual or group within 60 days of June 28, 2006 pursuant to the exercise of options or warrants to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Except as indicated in footnotes to this table, EPIX believes that the stockholders named in this table have sole voting and investment power with respect to all shares of EPIX common stock shown to be beneficially owned by them based on information provided to EPIX by these stockholders. Percentage of ownership is based on 23,284,810 shares of EPIX common stock outstanding on June 28, 2006.

	Shares Beneficially Owned	
Name and Address **	**Number**	**Percent**
Prescott Group Capital Management, L.L.C.(1) 1924 South Utica, Suite 1120 Tulsa, Oklahoma 74104-6529	1,712,334	7.35%
GLG Partners LP(2) 1 Curzon Street London W2J 5HB England	1,173,975	5.04%
Andrew C.G. Uprichard, M.D.(3)	80,500	*
Robert Pelletier, CPA(4)	25,131	*
Michael J. Astrue(5)		*
Michael D. Webb(6)	32,666	*
Peyton J. Marshall, Ph.D.(7)	64,000	*
Christopher F.O. Gabrieli(8)	225,784	*
Gregory D. Phelps(9)	21,667	*
Mark Leuchtenberger(10)	13,334	*
Peter Wirth, Esq.(11)	60,000	*
Michael Gilman, Ph.D.		*
Robert J. Perez		*
All current directors and executive officers as a group (7 persons)(12)	426,416	1.83%

* Represents beneficial ownership of less than 1% of the outstanding shares of EPIX common stock.

** Addresses are given for beneficial owners of more than 5% of outstanding EPIX common stock only.

(1) Includes (a) 1,630,334 shares of EPIX common stock held by the Prescott Group Aggressive Small Cap Master Fund, G.P., of which Prescott Group Aggressive Small Cap, L.P. and Prescott Group Aggressive Small Cap II, L.P. are general partners, and (b) 82,000 shares of EPIX common stock held by Phil Frohlich. Prescott Group Capital Management, L.L.C. serves as the general partner of Prescott Group Aggressive Small Cap, L.P. and Prescott Group Aggressive Small Cap II, L.P. and may direct Prescott Group Aggressive Small Cap, L.P. and

Prescott Group Aggressive Small Cap II, L.P., the general partners of Prescott Group Aggressive Small Cap Master Fund, G.P., in connection

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with the voting and disposition of the 1,630,334 shares of EPIX common stock held by Prescott Group Aggressive Small Cap Master Fund, G.P. As principal of Prescott Group Capital Management, L.L.C., Mr. Frohlich may direct the vote and disposition of the 1,630,334 shares of EPIX common stock held by Prescott Group Aggressive Small Cap Master Fund, G.P. and the 82,000 shares of EPIX common stock held by himself, individually. This information is based solely on a Schedule 13G filed by Prescott Group Capital Management, L.L.C. with the Securities and Exchange Commission on January 30, 2006, which reported ownership as of October 10, 2005.

(2) Includes the following holdings, of which GLG Partners LP, GLG Partners Limited, Noam Gottesman, Pierre Lagrange and Emmanuel Roman may be deemed the beneficial owner: (a) 752,398 shares of EPIX common stock held by GLG North American Opportunity Fund, (b) 3,771 shares of EPIX common stock held by GLG Investments PLC through its subfund, GLG Balanced Fund, (c) 74,469 shares of EPIX common stock held by GLG Investments PLC through its subfund, GLG Capital Appreciation Fund, (d) 254,300 shares of EPIX common stock held by GLG Investments PLC through its subfund, GLG North American Equity Fund, (e) 22,971 shares of EPIX common stock held by GLG Investments IV PLC through its subfund, GLG Capital Appreciation (Distributing) Fund, (f) 5,696 shares of EPIX common stock held by CITI GLG North American Hedge Fund Ltd., (g) 22,370 shares of EPIX common stock held by Lyxor North American Alternative Equity Fund Ltd., and (h) 38,000 shares of EPIX common stock held by The Century Fund SICAV, or collectively, the Funds. GLG Partners LP, an English limited partnership, acts as the investment manager of each of the Funds and has voting and dispositive power over the securities held by the Funds. The general partner of GLG Partners LP is GLG Partners Limited, an English limited company. The shareholders of GLG Partners Limited are Noam Gottesman, Pierre Lagrange, Philippe Jabre and Lehman (Cayman) Limited, a subsidiary of Lehman Brothers Holdings, Inc., a publicly-held entity. The managing directors of GLG Partners Limited are Noam Gottesman, Pierre Lagrange and Emmanuel Roman, and as a result, each has voting and dispositive power over the securities held by the Funds. GLG Partners LP, GLG Partners Limited, Noam Gottesman, Pierre Lagrange and Emmanuel Roman disclaim beneficial ownership of the securities held by the Funds except for their pecuniary interest therein. This information is based solely on a Schedule 13G filed by GLG Partners LP with the Securities and Exchange Commission on April 11, 2006, which reported ownership as of April 3, 2006.

(3) Represents shares of EPIX common stock subject to options exercisable by Dr. Uprichard within the 60-day period following June 28, 2006.

(4) Consists of 1,561 shares of EPIX common stock owned of record by and 23,570 shares of EPIX common stock subject to options exercisable by Mr. Pelletier within the 60-day period following June 28, 2006.

(5) Mr. Astrue resigned as Interim Chief Executive Officer on May 5, 2006.

(6) Consists of 14,166 shares of EPIX common stock owned of record by Mr. Webb and 18,500 shares of EPIX common stock held by Mr. Webb s wife as to which Mr. Webb disclaims beneficial ownership. Effective September 14, 2005, Mr. Webb resigned as Chief Executive Officer and member of the EPIX board of directors, but continued to serve as a consultant to EPIX through December 31, 2005.

(7) Represents 64,000 shares of EPIX common stock owned of record by Mr. Marshall. Effective July 1, 2005, Mr. Marshall resigned as Senior Vice President, Finance and Administration and Chief Financial Officer of EPIX.

(8) Consists of 152,450 shares of EPIX common stock owned of record by Mr. Gabrieli and 73,334 shares of EPIX common stock subject to options exercisable by Mr. Gabrieli within the 60-day period following June 28, 2006.

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(9) Represents shares of EPIX common stock subject to options exercisable by Mr. Phelps within the 60-day period following June 28, 2006.

(10) Represents shares of EPIX common stock subject to options exercisable by Mr. Leuchtenberger within the 60-day period following June 28, 2006.

(11) Represents shares of EPIX common stock subject to options exercisable by Mr. Wirth within the 60-day period following June 28, 2006. Mr. Wirth has notified EPIX that he is not standing for reelection to the EPIX board of directors at the EPIX 2006 annual stockholders meeting.

(12) Includes 272,405 shares of EPIX common stock subject to options exercisable within the 60-day period following June 28, 2006. See also footnotes (3), (4) and (8) through (11) above.

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PREDIX S BUSINESS

Overview

Predix is a pharmaceutical company focused on the discovery and development of novel, highly selective, small-molecule drugs that target G-Protein Coupled Receptors, or GPCRs, and ion channels. Predix believes that these classes of proteins provide a rich source of drug targets that it can exploit using its proprietary drug discovery technology. Combined with a focused drug development and regulatory strategy, Predix s proprietary drug discovery technology and approach has enabled it to discover, develop, and advance four drug candidates into clinical trials in less than four years, one of which commenced a Phase I clinical trial on June 2, 2006. Predix believes that its competitive advantage in the pharmaceutical industry stems from its integration of computational technologies into all of its drug discovery programs.

Predix s lead clinical-stage drug candidate, PRX-00023, is currently in the first of at least two pivotal Phase III trials for the treatment of generalized anxiety disorder. At least one additional Phase III trial will be required to support efficacy claims. Enrollment of patients for this first trial was completed in May 2006 and initial results are expected in the second half of 2006. Predix has two other clinical-stage drug candidates, PRX-03140 for the treatment of Alzheimer s disease and PRX-08066 for the treatment of two types of pulmonary hypertension: pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease. PRX-03140 has completed three Phase I clinical trials, including a Phase Ib clinical trial in Alzheimer s patients. PRX-08066 has completed three Phase I clinical trials, including a Phase Ib clinical trial in conditioned athletes exposed to low oxygen conditions, a model for pulmonary hypertension. In addition, on June 2, 2006, Predix commenced a Phase I clinical trial of its PRX-07034 drug candidate for the treatment of obesity and cognitive impairment (associated with Alzheimer s disease and schizophrenia).

GPCRs and ion channels are classes of proteins embedded in the surface membrane of all cells and are responsible for mediating much of the biological signaling at the cellular level. Of the top 50 selling drugs worldwide, as identified by IMS Health, Predix believes that nearly 40% interact with GPCRs or ion channels as their target proteins. Despite the commercial success of these drugs, many have undesired side effects due in part to these drugs binding not only to their target protein but also to other off-target proteins. Because very few high-resolution molecular structures are available for GPCR or ion channel proteins, drug discovery for these targets is costly, inefficient, and in many cases does not lead to the desired, selective drug candidate. A greater understanding of these protein structures would allow compounds to be chemically altered to achieve specificity for the target and lack affinity for other receptors that are believed to be associated with side effects.

Predix believes that its proprietary drug discovery technology and approach addresses many of the inefficiencies associated with traditional GPCR and ion channel-targeted drug discovery. Predix s approach integrates computational, or *in silico*, technology with its medicinal chemistry capabilities, allowing it to rapidly identify and optimize highly selective drug candidates. Predix focuses on GPCR and ion channel drug targets whose role in disease has already been demonstrated in clinical trials or pre-clinical studies. In each of its three clinical-stage programs, Predix used its technology and approach to optimize a lead compound into a drug candidate in less than ten months, synthesizing fewer than 80 compounds per program. Predix moved each of these drug candidates into clinical trials in less than 18 months from lead identification. Predix believes that its drug discovery technology and approach enables it to efficiently and cost-effectively discover and develop GPCR and ion channel-targeted drug candidates.

Since September 2002, Predix has discovered, optimized and advanced to clinical trials four drug candidates that are intended to address significant unmet medical needs with large global market opportunities. Predix s clinical-stage drug candidates are:

PRX-00023. Predix is developing PRX-00023 for the treatment of anxiety and depression. PRX-00023 is a novel, long acting, highly selective, small-molecule stimulator, or agonist, of a specific

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GPCR known as 5-HT1A. Predix s initial therapeutic focus for PRX-00023 has been on the treatment of generalized anxiety disorder. Enrollment of patients was completed in May 2006 for the first of at least two pivotal Phase III trials with PRX-00023 for the treatment of generalized anxiety disorder. Predix originally submitted the protocol for this trial to the FDA in June 2005 and subsequently submitted the statistical analysis plan for this trial to the FDA in August 2005. The protocol design and endpoints were deemed acceptable by the FDA in August 2005 and the statistical analysis plan was deemed acceptable by the FDA in November 2005. The ongoing Phase III trial follows a standard design for testing drug candidates for generalized anxiety disorder: patients with moderate-to-severe generalized anxiety disorder are randomized to either placebo or PRX-00023 for eight weeks. The primary endpoint is the change in the severity of the generalized anxiety disorder (measured by an FDA-accepted scale) at week eight in the PRX-00023 arm versus the placebo arm. Because the clinical development path of other 5-HT1A agonists in psychiatric disorders was well-established, and the mechanism of action of PRX-00023 had been validated in the clinic with other agents, Predix moved rapidly into this first pivotal Phase III clinical trial after it had completed an open-label Phase IIa trial in generalized anxiety disorder patients in July 2005. PRX-00023 was well tolerated at the two doses given orally once per day over this four week Phase II trial, with an acceptable adverse event profile. There were no serious adverse events and no patient discontinuations due to drug-related adverse events. In addition, results indicated that PRX-00023 given for four weeks significantly lowered measures of anxiety from baseline. These results are based on a small number of patients in an early-stage clinical trial and are not necessarily predictive of results in later-stage clinical trials with larger and more diverse patient populations. Predix intends to initiate clinical development of PRX-00023 for the treatment of depression in the future, and expects to be able to rely on the clinical trials completed to date for PRX-00023 and begin clinical development for a depression indication with Phase II clinical trials. To date, there have been no serious adverse events associated with treatment in more than 200 subjects who have received PRX-00023. Predix currently intends to seek a collaboration to develop PRX-00023 for depression, but may initiate such Phase II clinical trials in depression independently if circumstances allow. If Predix does enter into a collaboration with respect to PRX-00023, it is possible that any such collaboration will involve both the generalized anxiety disorder and depression indications.

PRX-03140. Predix is developing PRX-03140 for the treatment of Alzheimer s disease. PRX-03140 is a novel, highly selective, small-molecule agonist of a specific GPCR known as 5-HT4. Predix completed a Phase Ib clinical trial in Alzheimer s disease patients with PRX-03140 in September 2005. PRX-03140 was well tolerated in this trial and also in two additional Phase I clinical trials in healthy adult and elderly volunteers. In the 14-day Phase Ib clinical trial in patients with mild-to-moderate Alzheimer s disease, treatment with PRX-03140 resulted in changes in brain wave activity in these patients that are consistent with those seen in clinical trials with currently approved drugs for Alzheimer s disease. In the Phase I clinical trials, PRX-03140 caused an expected, dose-dependent, transient increase within normal levels of a hormone known to be linked to 5-HT4 stimulation, consistent with the effects of other 5-HT4 agonists. In several pre-clinical animal models, PRX-03140 also enhanced cognition and exhibited trends towards reduced levels of beta amyloid, or Ab, and increased levels of the non-amyloidogenic alpha-secretase form of soluble amyloid precursor protein, or sAPPa, proteins thought to be associated with Alzheimer s disease progression. In addition, in a pre-clinical animal model of cognition, PRX-03140 demonstrated synergistic activity when combined with an acetylcholinesterase inhibitor. These results are based on pre-clinical animal studies and a small number of patients in Phase I clinical trials and are not necessarily predictive of results in later-stage clinical trials with larger and more diverse patient populations. Predix expects to initiate a Phase IIa trial of PRX-03140 alone or in combination with an acetylcholinesterase inhibitor in patients with Alzheimer s disease in the second half of 2006.

PRX-08066. Predix is developing PRX-08066 for the treatment of pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease. Pulmonary arterial hypertension is a serious, often fatal cardiovascular disease characterized by elevation of pulmonary blood pressure and progressive thickening and narrowing of the blood vessels of the lungs, often leading to heart failure. PRX-08066 is a novel, highly selective, small-molecule inhibitor, or antagonist, of a specific GPCR

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known as 5-HT2B. Predix has completed three Phase I clinical trials of PRX-08066 in healthy volunteers, including a Phase Ib clinical trial in athletes conditioned to exercise at high altitudes with pulmonary hypertension that has been induced by a reduction in the level of inhaled oxygen. Preliminary results from the Phase Ib trial indicate that PRX-08066 caused a statistically significant reduction in the increase in systolic pulmonary blood pressure observed during exercise in volunteers breathing low oxygen, compared to placebo. In the two earlier Phase I trials as well as the Phase Ib trial, PRX-08066 was well-tolerated, with data supporting once or twice daily oral dosing. Predix expects to initiate a Phase IIa trial of PRX-08066 in patients with pulmonary hypertension associated with chronic obstructive pulmonary disease in the second half of 2006.

PRX-07034. Predix is developing PRX-07034 for the treatment of obesity as well as cognitive impairment (associated with Alzheimer s disease or schizophrenia). PRX-07034 is a novel, highly selective, small-molecule antagonist of a specific GPCR known as 5-HT6. Pre-clinical animal models of obesity suggest that this drug candidate may have positive effects on the reduction of both food intake and body weight. In addition, pre-clinical animal models of memory impairment suggest that PRX-07034 may have cognitive-enhancing properties. Predix initiated a Phase I clinical trial for PRX-07034 on June 2, 2006, which is expected to enroll approximately 18 healthy, adult male and female volunteers to study the safety, tolerability and pharmacokinetics of single ascending doses of PRX-07034. This Phase I trial features a randomized, placebo-controlled, double-blind, dose escalating, crossover design with up to six different oral doses of PRX-07034. Predix expects to receive data from this trial in the second half of 2006.

Predix also has ongoing GPCR and ion channel programs in modeling, discovery and lead optimization stages for the treatment of obesity, cardiac arrhythmia, cancer, inflammatory diseases, pain and cystic fibrosis.

Predix currently retains worldwide commercial rights to all of its current clinical and pre-clinical drug candidates. Predix s strategy is to establish strategic collaborations with leading pharmaceutical and biotechnology companies to further develop and commercialize certain of its drug candidates. It is possible that one of these strategic collaborations could trigger the milestone payment under the merger agreement. Predix is engaged in discussions with third parties regarding prospective collaborations for its drug candidates. However, Predix does not currently have any agreement or arrangement with respect to such a collaboration.

G-Protein Coupled Receptors and Ion Channels as Drug Targets

Of the top 50 selling drugs worldwide, as identified by IMS Health, Predix believes that nearly 40% interact with G-Protein Coupled Receptors, or GPCRs; or ion channels as their target proteins. These classes of drugs include Zyprexa for the treatment of schizophrenia, Plavix for the reduction of thromboembolic events (e.g., heart attack, stroke) and Norvasc for the treatment of hypertension. Most major therapeutic areas are served to some degree by drugs that target these proteins, making GPCRs and ion channels attractive targets for drug discovery.

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GPCRs convert signals received from the outside of the cell into biological processes inside the cell. A variety of well-known biological molecules, including neurotransmitters and hormones, can bind to GPCRs and trigger cellular processes involved in health and disease. The following figure shows the structure of a typical GPCR, highlighting its seven membrane-spanning (i.e., transmembrane) regions embedded in, and their orientation within, the cell membrane. These transmembrane regions are known to be important for GPCR-targeted drug binding, and Predix believes that most GPCR-based drugs bind primarily in a cleft where the transmembrane regions face towards the outside of the cell.

Ion channels are transmembrane proteins that form pores in the cell membrane through which ions can pass. Ion flow through ion channels can trigger a number of biological processes, including electrical conduction in nerves and the heart, modulation of cell-to-cell communication and regulation of fluid balance. The following figure shows the structure of a typical ion channel, highlighting how the protein forms a pore in the cell membrane through which ions pass.

Complexities of Traditional G-Protein Coupled Receptor and Ion Channel Drug Discovery

Drug discovery for G-Protein Coupled Receptors, or GPCRs, and ion channels has historically been a long and costly process, due to insufficient structural information for these targets which, if available, could guide rational drug discovery and optimization. Lacking reliable understanding of the three-dimensional, or 3D, structures of these membrane proteins, scientists have used a variety of experimental methods to discover GPCR and ion channel-targeted drugs. The most common approach for GPCR drug discovery has been high-throughput screening using genetically engineered cells that show a fluorescent marker when GPCR pathways are activated. This technique allows scientists to indirectly assess the activity of hundreds of thousands of compounds in hopes of identifying those that have affinity for a GPCR target. Screening

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compounds for their effects on ion channels primarily involves laborious measurements of the change in electric current passing through the channels.

While these strategies have yielded some success, they are both time-intensive and costly, and are poorly suited for the lead optimization stage in drug discovery, where promising compounds, or leads, are chemically manipulated in an attempt to improve their drug-like properties (e.g., increasing absorption, increasing half-life) while maintaining or improving affinity for the target protein. The number of changes that are made to a lead compound during optimization is typically substantial. However, because very few structures of GPCRs or ion channels are available, medicinal chemists have difficulties making rational, structure-guided modifications to lead compounds and, therefore, hundreds to thousands of compounds derived from the lead compound typically are synthesized and tested during lead optimization. Nevertheless, many of the currently available FDA-approved GPCR or ion channel-targeted drugs bind to off-target membrane proteins, which Predix believes may contribute to their adverse side effect profiles.

Over the last two decades, experimental techniques to determine protein structure, such as X-ray crystallography and nuclear magnetic resonance have evolved and are commonly used for structure-based drug discovery. Crystallography requires the expression, purification and crystallization of the target protein, and then uses analysis of diffracted X-rays to determine its structure. While crystallization works well in an aqueous (i.e., water-based) environment, it has not been effectively optimized for the hydrophobic (i.e., water-repelling) environment of the cell membrane, where GPCRs and ion channels are situated. Nuclear magnetic resonance has the advantage of measuring proteins in their native or functional state dissolved in solution without the need for crystallization. However, because GPCRs and ion channels are membrane-embedded, they can not be dissolved into solution in their native state, preventing nuclear magnetic resonance from being used to determine their functional structures.

To supplement these experimental approaches, a method known as homology modeling is often used to determine protein structure *in silico* based on similarity to known protein structures. However, this method is limited for GPCR and ion channel proteins because few structures of these membrane-bound targets have actually been determined. The one GPCR structure that has been determined experimentally is a receptor for light in the eye that does not use a biological molecule as its activator. This structure therefore has little relevance to the drugable GPCRs in humans.

More advanced methods of *in silico* modeling have also been developed to create 3D representations of GPCRs and ion channels. These models are built based on the experimental knowledge from known drugs or ligands with specific amino acids of the protein. For example, the basic portions of a drug will interact with an acidic amino acid. Amino acids from the protein are then oriented in space to mimic each of these interactions, thus creating 3D models of binding and/or non-binding interactions. Once created, these models are used to dock potential drug candidates and prioritize the synthesis and testing of compounds.

Predix s G-Protein Coupled Receptor and Ion Channel Drug Discovery Technology and Approach

Predix believes that its proprietary drug discovery technology and approach, based on structure of the target protein and other off-target proteins, can address many of the challenges that have hindered G-Protein Coupled Receptor, or GPCR, and ion channel drug discovery. Using its proprietary algorithms, Predix models the 3D structure of most GPCRs from its primary amino acid sequence. Predix utilizes known experimental data about the target and can incorporate known drug structures into an *in silico* representation of the 3D structure. Predix s technology enables it to explore the possible structural geometries of most types of GPCR and ion channel target proteins, taking into account specific interactions between the protein and the membrane, as well as specific interactions within the protein itself.

Predix uses these structures of the target GPCR or ion channel together with other off-target structures and predictive algorithms to discover and optimize highly selective drugs with anticipated

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favorable side effect profiles. By implementing its proprietary modeling and optimization technology along with commercially available predictive models, Predix believes that it can:

- incorporate greater selectivity into its drug candidates by examining the interaction of suggested compounds with its structures *in silico*, and eliminating those that may have affinity for other proteins, which Predix believes will result in drug candidates with favorable side effect profiles;

- identify some potential safety, pharmacokinetics (i.e., the determination of how much of a drug is absorbed, distributed, metabolized and eliminated by the body) and toxicology issues through *in silico* predictions prior to Predix s medicinal chemists synthesizing and testing actual compounds; and

- synthesize approximately 10-30 fold fewer compounds than in traditional GPCR or ion channel lead optimization programs by adopting structure-based (i.e., rational) lead optimization strategies and evaluating compounds *in silico* prior to the synthesis of actual compounds, effectively reducing the cycle time for the historically longest phase of drug discovery.

Predix believes that its ability to achieve success in drug discovery and optimization was first demonstrated in its anxiety and depression program, targeting the GPCR known as 5-HT1A. Predix s initial lead compound identified from *in silico* screening had good affinity for 5-HT1A but was problematic due to its high affinity for the off-target GPCRs named the alpha-adrenergic receptors type 1 and 2, which are believed to be associated with hypotension and lightheadedness. During the first cycle of lead optimization, Predix determined the structure of these off-target GPCRs, studied the interaction of its lead compound with these structures, and then modified its compound to reduce affinity for the off-target GPCRs while maintaining affinity for the target. Predix accomplished this goal within 15 compounds synthesized and in less than two months.

The next challenge Predix faced in lead optimization was reducing affinity for a specific potassium ion channel protein named hERG that has been linked to drug-induced cardiac arrhythmia. In the second round of lead optimization, starting from the 15th molecule, Predix created an *in silico* structure of the hERG ion channel and modified its compound to reduce affinity for this ion channel. Using its proprietary technology and approach, Predix was able to maintain a good drug-like profile and resolve the hERG issue, and Predix nominated its 23rd synthesized compound, PRX-00023, as its drug candidate. PRX-00023 is now Predix s lead clinical-stage drug candidate, currently in the first of at least two pivotal Phase III trials for the treatment of generalized anxiety disorder.

Although Predix s drug discovery capabilities and approach have not been applied to all types of GPCRs or ion channels that are targeted for therapeutics, Predix believes that its technology and approach to drug discovery is applicable to most types of GPCRs and ion channels.

Predix s Strategy

Predix intends to become a leader in the discovery, development and commercialization of novel small-molecule drugs that target G-Protein Coupled Receptors, or GPCRs, and ion channels to address disease areas with significant unmet medical need and commercial potential. Key elements of its strategy are as follows:

Maximize commercial and shareholder value of Predix s drug candidates. Predix has retained worldwide commercial rights to all of its current clinical and pre-clinical drug candidates. Predix currently intends to retain marketing and sales or co-promotion rights for drug candidates that receive market approval for indications in which it believes it is possible to access the market through a specialized sales force. Predix is engaged in discussions with third parties regarding prospective collaborations for its drug candidates and expects to establish strategic collaborations with leading pharmaceutical and biotechnology companies to further develop and commercialize certain of its drug candidates, particularly for indications in which large sales forces are required to access the market, as well as with respect to markets outside the United States.

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Capitalize on the commercial potential of Predix s lead drug candidate, PRX-00023. Predix intends to focus on the clinical development of PRX-00023 for the treatment of anxiety initially and subsequently depression, both of which are disease indications with a large commercial opportunity. Predix is currently focusing its development efforts on the treatment of generalized anxiety disorder, with the first of at least two pivotal Phase III clinical trials currently ongoing for PRX-00023 in this indication. Initial results are expected in the second half of 2006. Predix will need additional funding to further develop and commercialize PRX-00023 for the treatment of generalized anxiety disorder, and may seek to establish a collaboration with respect to this indication. Predix expects to be able to rely on the clinical trials completed to date for PRX-00023 and begin clinical development for a depression indication with Phase II clinical trials. Predix currently intends to seek a collaboration to develop PRX-00023 for depression, but may initiate such Phase II clinical trials in depression independently if circumstances allow. If Predix does enter into a collaboration with respect to PRX-00023, it is possible that any such collaboration will involve both the generalized anxiety disorder and depression indications.

Continue to advance Predix s additional clinical-stage programs. Predix plans to continue to develop PRX-03140 for the treatment of Alzheimer s disease and PRX-08066 for the treatment of pulmonary hypertension. Predix completed a Phase Ib clinical trial with PRX-03140 in Alzheimer s disease patients in September 2005 and expects to initiate a Phase IIa clinical trial in this patient population in the second half of 2006. Predix also completed a Phase Ib clinical trial with PRX-08066 in March 2006, and expects to initiate a Phase IIa clinical trial of PRX-08066 in chronic obstructive pulmonary disease patients with pulmonary hypertension in the second half of 2006. In addition, on June 2, 2006, Predix commenced a Phase I clinical trial of its PRX-07034 drug candidate for the treatment of obesity and cognitive impairment (associated with Alzheimer s disease and schizophrenia).

Advance and continue to expand Predix s pipeline of novel drug candidates to address unmet and/or underserved medical needs. To minimize the risks inherent in drug discovery and development, Predix intends to continue to focus its efforts on discovering drug candidates for GPCR and ion channel drug targets whose role in disease has already been demonstrated in clinical trials or pre-clinical studies. Predix believes that the breadth of its capabilities in GPCR and ion channel drug discovery will enable it to continue expanding its pipeline of novel, small-molecule drug candidates.

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Predix s Drug Development Programs

Through its G-Protein Coupled Receptor, or GPCR, and ion channel drug discovery expertise, Predix has created a pipeline of drug candidates designed to address diseases with significant unmet medical needs and commercial potential across a range of therapeutic areas. The following chart summarizes the status of Predix s product pipeline, including its clinical-stage drug candidates:

* Clinical development of PRX-00023 for a depression indication has not been initiated. Predix expects to be able to rely on the clinical trials completed to date for PRX-00023 to begin clinical development for a depression indication with Phase II clinical trials. Predix currently intends to seek a collaboration to develop PRX-00023 for depression, but may initiate such clinical trials in depression independently if circumstances allow.

PRX-00023 for Anxiety and Depression

PRX-00023 is a novel, highly selective, small-molecule 5-HT1A agonist that Predix is developing for the treatment of anxiety and depression. The initial therapeutic focus for PRX-00023 is on the treatment of generalized anxiety disorder, and PRX-00023 is currently in the first of at least two pivotal Phase III trials for the treatment of this disorder. As required by the FDA guidelines for the treatment of chronic disorders, at least two pivotal Phase III trials will be required for the full efficacy claim. Enrollment of patients for the first pivotal Phase III trial was completed in May 2006, and initial results are expected in the second half of 2006. Because the clinical development path of other 5-HT1A agonists in psychiatric disorders was well-established, and the mechanism of action of PRX-00023 had been validated in the clinic with other agents, following consultation with the FDA Predix moved rapidly into this first pivotal Phase III clinical trial after it had completed a Phase IIa open-label trial in generalized anxiety disorder patients in July 2005. Three Phase I clinical trials for PRX-00023 in healthy volunteers have also been completed. To date, there have been no serious adverse events associated with treatment in more than 200 subjects who have received PRX-00023.

Disease and Market Overview

Anxiety and depression are the most prevalent mental illnesses in the United States. Generalized anxiety disorder is characterized by excessive and unrealistic anxiety about everyday events and can be

accompanied by restlessness, irritability and difficulty concentrating. As a result of the excessive, uncontrollable worry about common daily events, generalized anxiety disorder can significantly impair one s ability to function. According to the U.S. National Institute of Mental Health, an estimated four million adult Americans suffer from generalized anxiety disorder. In 2003, approximately $3 billion was spent on drug therapy worldwide to treat anxiety disorders, according to Espicom. Depression covers a variety of symptoms, including extreme sadness, sluggishness and sleep and appetite disturbance. Depressive disorders affect nearly 19 million adult Americans, according to the U.S. National Institute of Mental Health. In 2004, an estimated $15.9 billion was spent on drug therapy worldwide to treat depression, according to Espicom.

Anxiety and depression are generally linked to abnormal regulation of neurotransmitters in the brain, including serotonin (5-HT), glutamate, noradrenaline and gamma-amino butyric acid. Neurotransmitters are chemicals in the brain that either excite or inhibit neural function. Generalized anxiety disorder and depression are often present together, and most patients are treated with the same drugs. The most commonly used therapies for anxiety and depression are selective serotonin reuptake inhibitors, or SSRIs, and the more recently developed serotonin noradrenaline reuptake inhibitors, or SNRIs. SSRIs selectively block the reuptake of 5-HT from the synapse of brain neurons, thereby increasing brain 5-HT concentrations. SNRIs inhibit the reuptake of noradrenaline as well as 5-HT. These drugs are thought to exert their effects by increasing neurotransmitter availability and transmission.

A recent study using gene knockout mice published in the journal *Science* showed that the increased 5-HT availability with SSRI treatment results in beneficial mood and behavior effects mainly through stimulation of 5-HT1A, one of the 14 known 5-HT G-Protein Coupled Receptor, or GPCR, subtypes. However, because SSRIs and SNRIs increase 5-HT levels in the brain, they can potentially stimulate the other thirteen 5-HT GPCR subtypes, some of which are believed to lead to the adverse side effects associated with these drugs, including sexual dysfunction, weight changes and sleep disorders.

Benzodiazepines, such as Valium, are a chemical class of drugs that are often prescribed for the short-term relief of generalized anxiety disorder. However, these sedating agents are controlled substances because of their addictive properties, and can be lethal when used in combination with alcohol.

Buspirone is an azapirone 5-HT1A agonist approved by the FDA for the treatment of generalized anxiety disorder, and it has been available in the United States since 1986 as BuSpar, marketed by Bristol-Myers Squibb, and generic equivalents. While buspirone does not have the sexual dysfunction side effects common with SSRIs, or the addictive and sedative properties of benzodiazepines, this drug must be taken three times a day, requires approximately three weeks of dose adjustment (known as titration) to reach therapeutic levels, and may cause lightheadedness and nausea, which are believed to be due to its affinity for off-target GPCRs.

Several other 5-HT1A agonists have shown efficacy in clinical trials in depression. However, most of these drugs belong to a chemical class of drugs called azapirones, and their development has been hindered by:

- poor tolerability at therapeutic doses;
- rapid metabolism, resulting in a short half-life and, therefore, requiring multiple daily dosing; and
- the requirement of slow dose escalation to effective doses because of nausea and lightheadedness, which are side effects of azapirones believed to be due in part to their binding to off-target GPCRs.

Predix believes that there exists a significant unmet need and commercial opportunity for a once daily therapy for the treatment of anxiety and depression that avoids the sexual dysfunction and sleep disorders associated with SSRIs, lacks the addictive and sedative effects of the benzodiazepines, and does not have the slow onset, short half-life, and side effects of azapirones (most of which have failed in clinical development due to poor tolerability at therapeutic doses). PRX-00023 was designed as a selective, non-azapirone, 5-HT1A agonist, which Predix believes addresses these needs.

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PRX-00023

Using its proprietary structure-based drug discovery technology and approach, Predix discovered, optimized and is developing PRX-00023, a novel, non-azapirone, long acting, highly selective, small-molecule 5-HT1A agonist for the treatment of anxiety and depression. Predix designed PRX-00023 to have minimal affinity for the GPCRs associated with the side effects of 5-HT1A agonists that are in the azapirone chemical class, to not bind to the 5-HT receptors that are believed to be associated with the side effects of SSRIs and SNRIs, and to have a more convenient dosing profile (i.e., a longer half-life) than azapirones. Three Phase I clinical trials for PRX-00023 have been completed in 110 healthy volunteers. The initial therapeutic focus for PRX-00023 has been on the treatment of generalized anxiety disorder, and PRX-00023 is currently in the first of at least two pivotal Phase III trials for the treatment of this disorder. Enrollment for this trial was completed in May 2006. Initial results are expected in the second half of 2006. Predix completed an open-label Phase IIa clinical trial of PRX-00023 in generalized anxiety disorder patients in July 2005.

Phase III Clinical Trial

This clinical trial is a randomized, placebo-controlled, double-blind, multi-center Phase III trial involving approximately 310 subjects with moderate-to-severe generalized anxiety disorder. Predix originally submitted the protocol for this trial to the FDA in June 2005 and subsequently submitted the statistical analysis plan for this trial to the FDA in August 2005. The protocol design and endpoints were deemed acceptable by the FDA in August 2005 and the statistical analysis plan was deemed acceptable by the FDA in November 2005. The protocol provides for patients to be randomized into one of two arms, consisting of approximately 155 patients each: a PRX-00023 treatment arm, in which patients receive a dose of 40 milligrams, or mg, administered once daily over a three-day period followed by an 80 mg oral dose once daily for a total of eight weeks; or a placebo arm. The primary objectives in this trial are to evaluate the efficacy of PRX-00023 as measured by the change from baseline in the Hamilton Rating Scale for Anxiety, or HAM-A, and to assess the safety and tolerability of PRX-00023 during treatment of patients with generalized anxiety disorder. The HAM-A scale is a subjective measure of the severity of anxiety, and is the FDA accepted standard for the evaluation of anti-anxiety activity. It is used in all pivotal trials of drug candidates for the treatment of generalized anxiety disorder. The HAM-A is administered by the clinician who evaluates the patient on 14 anxiety measures. Total score under the HAM-A scale ranges from zero to 56. Moderate-to-severe generalized anxiety disorder corresponds to a HAM-A score of more than 20, and a normal level of anxiety is defined as a HAM-A score of seven or less.

The key secondary objective of the ongoing Phase III trial is to assess the efficacy of PRX-00023 in patients with generalized anxiety disorder as measured by the change from baseline in the Clinical Global Impression Improvement score, or CGI-I. Several other metrics will be evaluated as exploratory secondary endpoints, including responder rate, remission rate, the effect of PRX-00023 on the Sheehan Disability scale (an indicator of difficulties with work/school, family life and social life), its effect on the Montgomery Asberg Depression Rating Scale, its effect on the Hospital Anxiety and Depression Scale, or HADS, its effect on sexual function, and the presence of withdrawal symptoms, if any, after cessation of drug therapy. Initial results from this trial are expected to be available in the second half of 2006.

Predix intends to initiate at least one additional pivotal Phase III trial for PRX-00023 in generalized anxiety disorder. Predix will need additional funding to further develop and commercialize PRX-00023 for the treatment of generalized anxiety disorder, and may seek to establish a collaboration with respect to this indication. Predix also intends to initiate clinical development of PRX-00023 for the treatment of depression in the future, and expects to be able to rely on the clinical trials completed to date for PRX-00023 and begin clinical development for a depression indication with Phase II clinical trials. Predix currently intends to seek a collaboration to develop PRX-00023 for depression, but may initiate such Phase II clinical trials in depression independently using a similar dosing scheme to that described above if circumstances allow. If Predix enters into a collaboration with respect to PRX-00023, it is possible that any such collaboration will involve both the generalized anxiety disorder and depression indications. Predix

does not currently have any agreement or arrangement with respect to any collaboration involving PRX-00023.

Additionally, Predix is planning to develop a commercial formulation of PRX-00023, but is conducting its trials of PRX-00023 with an unformulated version of the drug candidate. In addition, the clinical path of PRX-00023 may be delayed because Predix has less clinical data and clinical experience with PRX-00023 than it would have had it followed the more common practice of conducting more than one Phase II clinical trial for PRX-00023. Instead, after meeting with the FDA regarding the design, endpoints and statistical plan of the Phase III clinical trial, Predix elected to progress PRX-00023 directly into Phase III development. Predix must also submit the results of a two-year carcinogenicity study of PRX-00023 prior to its approval. Predix has not yet initiated this study and intends to conduct this study prior to submitting an NDA to the FDA.

Phase IIa Clinical Trial Results

Predix has completed an open-label, multi-center, outpatient Phase IIa clinical trial in 20 patients with moderate-to-severe generalized anxiety disorder (i.e., a HAM-A score of 20 or higher at the initial screening). In this trial, following a one-week single-blinded placebo run in period (where patients did not know they were receiving placebo), PRX-00023 was administered to patients in doses of 40 mg once daily orally for four days, followed by 80 mg once daily orally for 10 days and then 120 mg once daily orally for 14 days. The primary objective in this trial was to assess the safety and tolerability of PRX-00023 during short-term treatment of patients with generalized anxiety disorder. The secondary objectives were to evaluate the efficacy of PRX-00023 using standard assessment tests such as HAM-A, to evaluate the effect of PRX-00023 on remission of anxiety and to assess the effect of PRX-00023 on the change of the Profile of Mood State score, or POMS, from baseline.

Results from this Phase IIa clinical trial show that PRX-00023 was well tolerated at 80 mg and 120 mg daily, with slightly more adverse events and the only adverse event (i.e., irritability) rated severe in intensity seen at the 120 mg dose. The most frequently reported adverse event was flu-like symptoms, occurring in three patients. There were no serious adverse events and only one patient discontinuation, which was due to an adverse event that was deemed by the treating physician not to be related to PRX-00023. In comparison, a previously reported four week Phase II clinical trial of the 5-HT1A agonist ipsapirone in generalized anxiety disorder patients showed a discontinuation rate due to severe adverse events of 31% in the high dose treatment group. In Predix s Phase IIa clinical trial of PRX-00023, there was no record of any sexual dysfunction adverse events, no documented withdrawal symptoms following cessation of PRX-00023 dosing, and there were no significant changes with treatment of PRX-00023 in laboratory parameters, electrocardiograms or vital signs.

Although there was no comparator treatment in this trial, the results indicate that PRX-00023, given for four weeks, substantially lowered measures of anxiety from baseline values, including the HAM-A total score, HAM-A psychic subscale score, CGI-I score and HADS score. Predix s analysis of HAM-A scores showed that 13 of 19 patients, or 68%, were responders, with a reduction in their HAM-A score of at least 40% and also showed that 9 of 19 patients, or 47%, had a reduction in their HAM-A score of at least 50%. This response rate is consistent with that reported in clinical development with the active drugs escitalopram (Lexapro), venlafaxine (Effexor), paroxetine (Paxil), buspirone (BuSpar), and diazepam (Valium) in an anxiety patient population. This response rate is also higher than the response rates to placebo in generalized anxiety disorder trials, which is on average approximately 30%, as reported in the May 2005 issue of the journal *Psychological Medicine.*

Predix s analysis also showed that six of 19 patients, or 32%, experienced remission of anxiety (i.e., a return to normal function), with a reduction in HAM-A score to seven or less during treatment with PRX-00023. This finding is consistent with that observed with drugs that affect the serotonin system, as shown recently in generalized anxiety disorder trials with the SSRIs escitalopram and paroxetine. In addition, results indicated that while there was further improvement in response from week two to week four, the majority of anti-anxiety effects of PRX-00023 occurred in the first two weeks of treatment, when

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patients were dosed with 80 mg per day. This finding suggests that PRX-00023 may have a relatively rapid onset of action compared to that of SSRIs used to treat generalized anxiety disorder.

These results are based on a small number of patients in an early-stage clinical trial and are not necessarily predictive of results in later-stage clinical trials with larger and more diverse patient populations.

Phase I Clinical Trial Results

Predix has completed three Phase I clinical trials of PRX-00023 in a total of 110 healthy volunteers to evaluate the tolerability and pharmacokinetics of PRX-00023. These Phase I clinical trials included randomized, placebo-controlled, double-blind, single and 28-day multiple-dose escalation trials, as well as a food effect and high dose trial in healthy volunteers. The results of these trials of PRX-00023 suggested pharmacokinetic properties suitable for once daily oral therapy with a half-life of ten to 14 hours, and no serious adverse events were associated with treatment. In addition, there were no clinically meaningful changes in any clinical laboratory tests, vital signs or electrocardiograms during these Phase I trials.

In addition, 5-HT1A agonists of several chemical classes are known to induce the transient, low-level release of the hormone prolactin, which is made in the brain. While such hormonal increases have not been reported to cause side effects, increases in prolactin levels can be measured as a surrogate marker of 5-HT1A stimulation in the brain. In all three of its Phase I clinical trials, Predix measured plasma prolactin levels as a surrogate marker for 5-HT1A activity following administration of PRX-00023. Measurable, dose-dependent increases in prolactin levels were found at doses greater than 10 mg. Prolactin increases with administration of 40 mg of PRX-00023 were comparable to those measured with the highest FDA-approved dose of buspirone administered (30 mg); in both cases, prolactin levels returned to baseline within six hours, showing the transient nature of this hormonal response to 5-HT1A stimulation. Doses of PRX-00023 between 60 mg and 90 mg showed maximal stimulation of prolactin with or without food; higher doses produced no additional prolactin. Predix believes that this finding demonstrates PRX-00023 activity through the 5-HT1A receptor and indicates that doses between 60 mg and 90 mg can mediate optimal biological activity. Whether this biological activity will translate directly into clinical activity is not known. Doses as high as 150 mg once daily have been achieved without significant side effects; a maximum tolerated dose has not been determined to date.

In the 28-day multiple-dose Phase I clinical trial, Predix also administered a POMS survey, and observed trends in tension/anxiety and anger/hostility items that were consistent with an anti-anxiety drug.

These results are based on a small number of patients in early-stage clinical trials and are not necessarily predictive of results in later-stage clinical trials with larger and more diverse patient populations.

PRX-03140 for Alzheimer s Disease

PRX-03140 is a novel, highly selective, small-molecule 5-HT4 agonist that Predix is developing for the treatment of Alzheimer s disease. PRX-03140 is being developed to provide improved cognition and to slow Alzheimer s disease progression. Predix completed a 14-day multiple-dose Phase Ib clinical trial with PRX-03140 in patients with mild-to-early moderate Alzheimer s disease in September 2005. Predix has also completed a multiple-dose Phase I clinical trial in healthy volunteers and a single-dose escalation Phase Ia clinical trial in healthy volunteers, including one cohort of healthy elderly volunteers. To date, there have been no serious adverse events associated with treatment with PRX-03140.

Disease and Market Overview

Alzheimer s disease is a debilitating neurodegenerative disorder characterized by progressive loss of memory and cognitive function, affecting 4.5 million Americans according to the Alzheimer s Association, and over 9 million worldwide according to the Alzheimer s Disease International Association. The U.S. National Institute of Aging estimates that about 5% of the population aged 65-74 and as many as

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50% of those over age 85 have the disease. According to U.S. Census data, the 65 and older population will double over the next 25 years, to over 70 million, when the youngest post-World War II baby boomers turn older than 65. A recent study in the journal *Neurology* showed that this growth in the elderly population is expected to result in a 44% average increase in Alzheimer s disease patients in the United States by 2025. The global market for Alzheimer s disease drugs is growing rapidly, from $3 billion in 2004 to nearly $7 billion expected in 2010, as estimated by Espicom.

Patients with Alzheimer s disease exhibit a marked reduction in the function of neurons that produce various neurotransmitters, particularly acetylcholine, or ACh. ACh is a critical neurotransmitter in the brain that regulates memory and learning. Progressive loss of function of the neurons in memory-related areas and alteration in other mental abilities occurs, leading to difficulties in making judgments and in carrying out daily activities, eventually resulting in the loss of speech and movement.

Three out of the four approved drugs for Alzheimer s disease in the United States are acetylcholinesterase inhibitors, which exert their effect by blocking the enzyme that degrades ACh, thereby maintaining brain levels of this key neurotransmitter, provided that neurons are functioning sufficiently to produce enough ACh (the other approved drug is an antagonist of an ion channel known as the NMDA glutamate receptor that protects against this protein becoming overexcited by glutamate, but which also allows for normal neuron function). Although the acetylcholinesterase inhibitors and the NMDA antagonist provide short-term improvements in cognition and memory, as neuronal function declines in Alzheimer s disease, they lose activity. In addition, acetylcholinesterase inhibitors can cause significant peripheral side effects, including nausea, vomiting, dry mouth, urinary dysfunction, anxiety and diarrhea, believed to be due to increases in ACh levels in peripheral organs. These peripheral side effects limit the doses which can be administered to patients with Alzheimer s disease.

Predix believes that there is strong clinical interest and significant potential market opportunity in developing Alzheimer s disease drugs which increase the production of ACh in the brain without affecting the levels of ACh in the peripheral organs.

Recent published studies by pharmaceutical companies and academic groups suggest that stimulation of a specific G-Protein Coupled Receptor in the brain known as 5-HT4 may provide both improvement in cognition and memory and could potentially slow disease progression as follows:

Improvement in cognition and memory

5-HT4 stimulation has been shown in pre-clinical studies to increase ACh levels in the brain by stimulating its release and/or production. 5-HT4 stimulation also has been shown in animal models to improve cognitive function.

5-HT4 stimulation has been shown in animal models to overcome abnormal cognitive function induced by other agents that block ACh function, suggesting that 5-HT4 stimulation leads to an increase in ACh production and/or release specifically in the brain.

This mechanism may be complementary to that of acetylcholinesterase inhibitors. It has been demonstrated in pre-clinical models of Alzheimer s disease by Predix and other groups that cognition may be enhanced by either using a 5-HT4 agonist as monotherapy or in combination with acetylcholinesterase inhibitors.

Slowing disease progression

Amyloid precursor protein, or APP, is a protein that can be cut into smaller molecules which can stimulate Ab plaque-forming or non-plaque-forming signaling cascades, or pathways.

5-HT4 stimulation may promote a pathway in APP regulation thought to be non-plaque forming.

By activating this pathway, 5-HT4 stimulation has been shown in animal models to reduce the plaque-forming Ab isoforms of APP.

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Predix believes that there exists a significant unmet need and commercial opportunity for a therapy for Alzheimer s disease that improves cognition alone or in combination with acetylcholinesterase inhibitors, and which has the potential to slow disease progression. PRX-03140 was designed as a selective 5-HT4 agonist, which Predix believes addresses these needs and may be devoid of many of the peripheral side effects common with most agents currently used to treat Alzheimer s disease.

PRX-03140

Using its proprietary structure-based drug discovery technology and approach, Predix discovered, optimized and is developing PRX-03140, a novel, highly selective, small-molecule 5-HT4 agonist for the treatment of Alzheimer s disease. PRX-03140 has demonstrated cognition improvement and memory enhancement, along with potential neuroprotective and disease-modifying effects, in multiple pre-clinical models in several animal species. In these *in vivo* studies, PRX-03140 increased ACh levels, resulting in enhanced memory and cognition, and also exhibited trends towards reduced Ab plaque levels and increased sAPPa levels, demonstrating the potential to slow disease progression. In addition, PRX-03140 also affected the neuroprotective growth factors called NGF and BDNF. Predix believes that PRX-03140 will be used in the clinic as either monotherapy or in combination with the acetylcholinesterase inhibitors that are approved for Alzheimer s disease. In a pre-clinical animal model of cognition, PRX-03140 demonstrated synergistic activity when combined with the acetylcholinesterase inhibitor galantamine (Razadyne).

Predix completed a 14-day Phase Ib clinical trial in patients with mild-to-early moderate Alzheimer s disease with PRX-03140 in September 2005. Predix has also completed a 14-day, multiple-dose Phase I clinical trial in healthy volunteers and a single-dose escalation Phase I clinical trial in healthy volunteers, including one cohort of healthy elderly volunteers.

Planned Phase IIa Clinical Trial

Predix is currently designing an initial Phase IIa clinical trial of PRX-03140 for the treatment of Alzheimer s patients based on the tolerability and pharmacokinetic results from the three Phase I clinical trials. Predix expects to initiate this trial in the second half of 2006. Predix may conduct this Phase IIa clinical trial and other clinical trials for PRX-03140 independently or, if conditions at the time favor or require, Predix may seek to establish a collaboration with a leading pharmaceutical or biotechnology company. Predix does not currently have any agreement or arrangement with respect to any such collaboration.

Phase Ib Clinical Trial

Predix completed a 14-day Phase Ib clinical trial of PRX-03140 in mild-to-early moderate Alzheimer s patients to evaluate tolerability and pharmacodynamics (i.e., the determination of the processes through which a drug exerts the biological effect observed) in September 2005. PRX-03140 was well tolerated in this study, with no serious adverse events or drug-related discontinuations. Quantitative markers of brain wave activity called electroencephalograms, or EEGs, were acquired to examine the pharmacodynamic effects of PRX-03140 in the brain. In Alzheimer s patients, the amount of slow-wave activity in the EEG, known as the theta band, is increased at rest and has been shown to be correlated with measures of Alzheimer s severity. Results from this Phase Ib clinical trial showed that statistically significant decreases in slow-wave activity were observed with PRX-03140 treatment relative to the effect observed with placebo treatment. This finding is consistent with EEG effects previously seen in short-term clinical trials with approved drugs for Alzheimer s disease that act to increase levels of ACh in the brain. This finding also demonstrates that PRX-03140 penetrates the human brain.

In addition, changes in cognitive scales were monitored in this Phase Ib clinical trial, such as the Cambridge Neuropsychological Test Automated Battery, or CANTAB, Buschke memory test and Alzheimer s Disease Assessment Scale-cognitive subscale, or ADAS-cog. No appreciable differences were noted in analyses of these cognitive function test results, which is also consistent with results from several

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small, short-term studies with currently approved drugs for Alzheimer s disease, where changes in cognition require dosing from three to six months.

Biomarkers of 5-HT4 receptor effects, such as Ab and sAPP , were also measured in this Phase Ib study. Trends towards decreases in plasma levels of Ab, as well as increases in sAPP , with PRX-03140 treatment relative to placebo treatment were seen. Though the trends did not reach statistical significance, the direction of change in these parameters relative to placebo treatment was similar to findings from the pre-clinical animal models. Predix believes that these data suggest that PRX-03140 could slow the progression of disease in Alzheimer s patients. However, the FDA has not approved any agent to date with a label for slowing disease progression, and endpoints required in such studies are not clear at this time. Therefore, Predix is focusing its initial clinical development on demonstrating the cognitive improvement of PRX-03140 alone or in combination with acetylcholinesterase inhibitors.

Phase I Clinical Trial Results

Predix has completed two Phase I clinical trials with PRX-03140 in a total of 110 healthy volunteers to evaluate its safety, tolerability and pharmacokinetics. These Phase I clinical trials were randomized, placebo-controlled, double-blind, single and multiple-dose escalation studies. The single-dose escalation study evaluated doses ranging from 5 mg to 250 mg. This study included one cohort of healthy elderly volunteers (65-80 years old). The multiple-dose escalation study evaluated daily dosing of 10 mg to 200 mg for 14 days and incorporated measurements of biomarkers for 5-HT4 agonist activity, such as aldosterone.

The Phase I multiple-dose clinical trial results for PRX-03140 suggest pharmacokinetic properties suitable for once daily oral therapy with a half-life of nine to 13 hours. Over a dose range of up to 250 mg, which was the maximum dose tested in the single-dose escalation study, PRX-03140 was well-tolerated, and there were no serious adverse events associated with treatment with PRX-03140. Therefore, a maximum tolerated dose of PRX-03140 has not been determined. In the multiple dose trial, with doses of 200 mg taken by mouth once daily for 14 days, there were no serious adverse events. Three of the 6 volunteers taking this dose reported vivid dreams, which have also been reported in patients taking other drugs that increase ACh levels in the brain. In addition, because a hormone called aldosterone is known to increase in response to 5-HT4 stimulation in humans, aldosterone was measured in the Phase I trials as a surrogate marker of 5-HT4 activity. In the Phase I trials, PRX-03140 caused the expected, dose-dependent, transient increase of aldosterone within normal levels, consistent with the effects of other 5-HT4 agonists on this hormone.

These results are based on a small number of patients in early-stage clinical trials and are not necessarily predictive of results in later-stage clinical trials with larger and more diverse patient populations.

PRX-08066 for Pulmonary Hypertension

PRX-08066 is a novel, highly selective, small-molecule 5-HT2B antagonist that Predix is developing for the treatment of pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease. PRX-08066 is being developed to provide both symptomatic improvement and to slow disease progression. Predix has completed three Phase I clinical trials in healthy volunteers and to date, there have been no serious adverse events associated with treatment with PRX-08066. One of these clinical trials was a Phase Ib trial in athletes conditioned to exercise at high altitudes with pulmonary hypertension that was induced by breathing low levels of oxygen. Preliminary results from the Phase Ib trial indicate that PRX-08066 given twice daily caused a statistically significant reduction in the pulmonary blood pressure that is elevated during exercise at reduced oxygen levels, compared to placebo.

Disease and Market Overview

Pulmonary arterial hypertension, is a serious, often fatal cardiovascular disease characterized by elevation of pulmonary artery blood pressure and progressive thickening and narrowing of the blood vessels

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of the lungs, which can lead to heart failure. Like other heart failure syndromes, symptoms of pulmonary arterial hypertension include fatigue after minimal exertion, dizzy spells, chest pain, shortness of breath and fainting. Predix believes that pulmonary arterial hypertension afflicts at least 50,000 people in the United States and 50,000 in Europe. According to Datamonitor, the global market for pulmonary arterial hypertension drugs is growing rapidly, from over $800 million in 2005 to an estimated $1.8 billion in 2010, as more patients with pulmonary arterial hypertension are diagnosed and initiated on drug therapy.

According to Datamonitor, pulmonary hypertension is estimated to be present in approximately 15-20% of patients who have chronic obstructive pulmonary disease, a progressive lung disease affecting nearly 30 million people worldwide which is characterized by airflow obstruction that interferes with normal breathing and impairs the ability to exercise and perform daily activities. There are currently no approved drugs for the treatment of pulmonary hypertension associated with chronic obstructive pulmonary disease.

Pulmonary arterial hypertension results from the accelerated proliferation of blood-vessel-associated smooth muscle cells that leads to the growth and thickening (i.e., constriction) of pulmonary arteries. Blood supply for the lungs is mediated by contraction of the right ventricle in the heart. The right ventricle can accommodate normal pulmonary blood pressures, but is poorly suited to tolerate the increased pulmonary pressures associated with arterial constriction that occur in pulmonary arterial hypertension. Over time, as the right ventricle loses the ability to pump blood into the hypertensive pulmonary system, the right ventricle heart muscle weakens and becomes enlarged and dilated, eventually leading to heart failure.

Currently approved treatments for pulmonary arterial hypertension include prostacyclin analogs, an endothelin receptor antagonist and a phosphodiesterase-5 inhibitor, all of which relieve disease symptoms by reducing pulmonary artery blood pressure. Prostacyclin analogs are mainly administered by intravenous or subcutaneous infusions using complicated delivery systems or as inhalation solutions. The only endothelin receptor antagonist currently approved for the treatment of pulmonary arterial hypertension is orally administered. Endothelin receptor antagonists as a class may, however, cause liver toxicity, and the currently approved drug in this class for the treatment of pulmonary arterial hypertension requires patients to undergo monthly liver function blood tests. In addition, the prostacyclins and the endothelin receptor antagonist may not be used at optimal doses due to their lack of selectivity for pulmonary vessels, which can result in reductions in systemic blood pressure, causing patients to become lightheaded, dizzy and fatigued. Moreover, because these current treatments do not directly target pulmonary artery smooth muscle cell proliferation that occurs during pulmonary arterial hypertension, they are limited in their ability to slow progression of the disease. The long-term efficacy, maintenance dose, disease modification properties and mortality benefits of the newly approved phosphodiesterase-5 inhibitor are not yet known.

The role of a G-Protein Coupled Receptor known as 5-HT2B in pulmonary arterial hypertension has recently been characterized, and this protein has been implicated in pulmonary arterial hypertension caused by diet drugs, whose metabolites are potent and selective activators, or agonists, of 5-HT2B. 5-HT2B receptors are selectively expressed to a higher level in pulmonary arteries of patients with pulmonary arterial hypertension compared with 5-HT2B levels in normal pulmonary arteries. Recent studies in animal models have shown that 5-HT2B antagonists selectively open, or dilate, diseased pulmonary vessels but do not affect normal pulmonary or systemic vessels, thus potentially providing improved exercise capacity in pulmonary arterial hypertension patients without the risk of reductions in systemic blood pressure. 5-HT2B antagonists have also been shown to slow disease progression in animal models of pulmonary arterial hypertension by blocking the smooth muscle cell proliferation that leads to progressive thickening of pulmonary vessels as pulmonary arterial hypertension worsens.

Predix believes that there exists a significant unmet need and commercial opportunity for the treatment of pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease. PRX-08066 has the potential to address this need through its effect on the 5-HT2B receptor, which Predix believes may result in dilation of diseased pulmonary arteries and inhibition of pulmonary vessel thickening.

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PRX-08066

Using its proprietary structure-based drug discovery technology and approach, Predix discovered, optimized and is developing PRX-08066, a novel, highly selective, small-molecule 5-HT2B antagonist for the treatment of pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease. PRX-08066 is being developed to provide both symptomatic improvement through selective dilation of diseased pulmonary blood vessels and to also slow disease progression by inhibiting the thickening of the pulmonary artery vessels. Unlike many commonly used vasodilators, PRX-08066 is selective for the pulmonary vessels and shows no effect on systemic blood pressures. Thus, PRX-08066 has demonstrated selective pulmonary vessel dilation in both acute and chronic animal models of pulmonary arterial hypertension, as well as potential disease-modifying effects in *vitro* biochemical pathway studies. In pre-clinical studies, PRX-08066:

- caused rapid reductions in pulmonary blood pressure in hypoxia-induced mouse and rat models of pulmonary arterial hypertension without affecting normal pulmonary or systemic blood pressures;
- reduced the hypoxia-dependent increase in pulmonary blood pressure in a rat model of short-term hypoxia without altering systemic blood pressure, suggesting a role for PRX-08066 in the treatment of acute mountain sickness and hypoxia-induced pulmonary hypertension; and
- potently blocked the function of an enzyme named mitogen-activated protein kinase which has been linked to the proliferation of blood-vessel-associated smooth muscle cells leading to the progression of pulmonary arterial hypertension.

Because of the selectivity it has shown for hypoxia-induced pulmonary hypertension in pre-clinical studies, Predix believes that PRX-08066 should lack the systemic blood pressure issues of currently approved therapies for pulmonary arterial hypertension, and PRX-08066 may be a suitable treatment for pulmonary hypertension associated with chronic lung disease. Predix has completed three Phase I clinical trials of PRX-08066 in healthy volunteers, including a Phase Ib trial in athletes conditioned to exercise at high altitudes with pulmonary hypertension that has been induced by a forced lack of oxygen.

Phase Ib Clinical Trial

Predix has completed a Phase Ib clinical trial to study the pharmacodynamics and tolerability of PRX-08066 in 15 adults conditioned to exercise at high altitudes, with elevated pulmonary artery pressures induced by low oxygen levels (hypoxia). This trial explored the effects of PRX-08066 on pulmonary blood pressure and exercise capacity during hypoxic challenges in athletic adults who are conditioned to low oxygen pressure environments, such as high altitudes. Because of their conditioning at high altitudes, these volunteers are able to tolerate increases in pulmonary pressures when challenged with inhalation of hypoxic gas mixtures.

This Phase Ib trial featured a randomized, double-blind, three-period crossover design, where each subject received drug or placebo twice daily for three days in three separate periods, with an interval of one to two weeks between visits. During each dosing day, subjects were challenged with hypoxic conditions for 90 minutes to induce increases in pulmonary blood pressure. The pharmacodynamics of PRX-08066 were characterized by the noninvasive measurement of pulmonary artery blood pressure, cardiac index (i.e., volume of blood pumped by the heart per minute indexed to body size) and exercise capacity using an echocardiogram, or heart ultrasound. Ten of the 15 subjects who received at least one dose of PRX-08066 completed all phases of the trial and were included in this analysis.

Preliminary results from this Phase Ib trial show that a reduction in the systolic pulmonary blood pressure during resting hypoxia and during exercise hypoxia was observed with PRX-08066 treatment, at a dose level of 200 mg given orally bid (twice daily), compared to placebo. This dose level resulted in a statistically significant, 40% reduction in the hypoxia-induced increase in pulmonary blood pressure compared to placebo during hypoxia exercise (day one data pooled with day three data).

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There was no obvious effect of PRX-08066 on cardiac index or exercise capacity. Based on the good tolerability of PRX-08066 and its effect to reduce pulmonary blood pressure within three days of dosing in this Phase Ib trial, Predix expects to initiate a Phase IIa clinical trial in pulmonary hypertension associated with chronic obstructive pulmonary disease in the second half of 2006.

Phase I Clinical Trials

Predix has completed two Phase I clinical trials in healthy volunteers to evaluate the safety and tolerability of PRX-08066 and to obtain pharmacokinetic data. The first Phase I clinical trial was a randomized, placebo-controlled, double-blind, single-dose escalation study with 40 subjects. Over a dose range from 25 mg to 500 mg, PRX-08066 was well-tolerated; nausea was seen at the 800 mg dose. There were no serious adverse events or liver toxicity issues associated with treatment.

The second Phase I clinical trial was a 14-day, multiple-dose study of PRX-08066 in healthy volunteers to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of PRX-08066. Over a dose range of 25 mg once daily to 400 mg twice daily, PRX-08066 was well-tolerated, and there were no serious adverse events or liver toxicity associated with treatment. Pharmacokinetic data from the two Phase I studies is consistent with once or twice daily oral dosing.

PRX-07034 for Obesity and Cognitive Impairment

PRX-07034 is a novel, highly selective, small-molecule 5-HT6 antagonist being developed for the treatment of obesity and also for cognitive impairment (associated with Alzheimer s disease or schizophrenia). Pre-clinical animal models of obesity suggest that this drug candidate may have positive effects on the reduction of both food intake and body weight. In addition, pre-clinical animal models of memory impairment suggest that PRX-07034 may have cognitive-enhancing properties.

Phase I Clinical Trial

Predix initiated a Phase I clinical trial for PRX-07034 on June 2, 2006, which is expected to enroll approximately 18 healthy, adult male and female volunteers to study the safety, tolerability and pharmacokinetics of single ascending doses of PRX-07034. This Phase I trial features a randomized, placebo-controlled, double-blind, dose escalating, crossover design with up to six different oral doses of PRX-07034. Predix expects to receive data from this trial in the second half of 2006.

Predix s Pre-clinical and Discovery Programs

In addition to its three clinical-stage drug candidates, Predix has ongoing pre-clinical and discovery programs for a broad variety of G-Protein Coupled Receptor, or GPCR, and ion channel drug targets. Predix is also expanding its structure-based technologies to investigate additional membrane protein types

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as drug targets. The following table shows the status of Predix s five pre-clinical and discovery-stage programs associated with six drug targets:

Drug Target	Proposed Indication	Mechanism of Action	Stage	Status
Kv1.5	Atrial fibrillation	Ion channel antagonist	Lead optimization(1)	Efficacy shown in *in vitro* heart muscle cells
S1P-1	Inflammation, cancer	GPCR modulator	Lead optimization(1)	Efficacy shown in *in vivo* animal models
CCR-2	Inflammation, rheumatoid arthritis	GPCR modulator	Lead discovery(2)	*In silico* screening using 3D structure ongoing
CB-1	Obesity, pain	GPCR modulator	Lead discovery(2)	*In silico* screening using 3D structure ongoing
P2Y(2)	Cystic Fibrosis	GPCR agonist	Modeling(3)	*In silico* 3D structure modeling
CFTR	Cystic Fibrosis	Ion channel modulator	Modeling(3)	*In silico* 3D structure modeling

(1) Lead optimization is the process of chemical modification of a lead compound to produce a drug candidate that can enter into pre-clinical and clinical development.

(2) Lead discovery is the process of identifying compounds that have affinity for the target protein and have suitable drug-like properties.

(3) Modeling is the process of predicting in silico the 3D structure of the target GPCR or ion channel protein.

Predix s Drug Discovery Technology and Approach

Structure-based approaches to drug discovery can be more efficient and cost effective than traditional drug discovery methods. For example, the HIV protease inhibitors were launched within eight years of initiation of the programs using structure-based approaches, compared to an average drug development time of between ten to 15 years using traditional approaches. To date, these benefits have been limited for G-Protein Coupled Receptor, or GPCR, and ion channel drug programs because of the inability of today s experimental methods, such as X-ray crystallography, to determine the structure of these membrane-bound drug targets. Predix has developed a novel and unique *in silico* protein structure-based approach to GPCR and ion channel-targeted drug discovery that allows it to benefit from the structure-based approach in the absence of experimentally determined structures for these targets. Predix s PREDICT technology combines genomic information (the amino acid sequence of the target protein) with physical and chemical properties of the cell membrane environment to predict what structure it determines to be the most stable 3D structure of a membrane-bound protein. Predix s PREDICT technology leads to the 3D structure of the target protein and thus is the foundation and first step in its novel system of discovery and optimization for GPCR and ion channel-targeted drugs. Predix has maintained its GPCR and ion channel structures as trade secrets, which Predix believes, when combined with its proprietary software and know-how required to use the PREDICT technology, creates a strong barrier to entry for Predix s competitors.

Using Predix s proprietary drug discovery technology and approach requires the successive application of the following five steps: (1) using the PREDICT technology to construct a representation of the 3D structure of the desired GPCR or ion channel drug target, bypassing the need for X-ray crystallography, (2) analyzing the resulting structure and identifying a potential site on the target structure for drug interaction, (3) performing *in silico* screening using the computer to fit more than two million drug-like compounds into this drug site, ensuring that both the shape and chemical properties match, (4) selecting

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the 100-200 compounds that best match the drug site on the target and testing their activity *in vitro* in the laboratory and (5) identifying the most active and novel chemical compounds, referred to as lead compounds, and then subjecting these lead compounds to an integrated structure-based lead optimization process. The PREDICT-generated 3D structure of the target protein as well as other 3D protein structures (many of which are also generated by PREDICT) are used to steer lead optimization along the most efficient path, transforming lead compounds into drug candidates expeditiously. Predix s discovery and optimization process is outlined in the following steps:

PREDICT-3D in silico modeling. Predix has developed novel proprietary algorithms which it uses in its PREDICT technology to model the 3D structure of most GPCR from its primary amino acid sequence. PREDICT uses algorithms that explore a large number of possible structures of the GPCR target and then selects the structure it determines to be most biologically relevant. It takes into account specific interactions between the GPCR protein and the membrane, specific interactions within the GPCR protein itself, and addresses the limitations that hamper homology-based modeling of GPCRs. The PREDICT software code and many of its algorithms are kept as trade secrets, making it difficult to copy or reverse-engineer. Predix filed patents on PREDICT version 1.0 in 2000, and the current version of PREDICT is highly advanced and includes numerous new algorithms and capabilities. PREDICT bypasses the need for X-ray crystallography structures of GPCRs to initiate a structure-based discovery program for this class of targets.

Virtual libraries. Predix s libraries consist of virtual versions of more than two million drug-like compounds which are available for purchase from commercial vendors worldwide. These virtual libraries reduce the need for Predix to synthesize or purchase, store and maintain tens or hundreds of thousands of actual compounds for the initial screening.

Rapid in silico screening. The process of *in silico* screening requires the computer to perform trillions of operations in trying to fit numerous drug-like compounds into the drug site of the target protein, matching both shape and chemical properties. Predix performs high-throughput *in silico* screening with a combination of proprietary and public software to identify compounds that may bind to a target GPCR or ion channel.

Ranking of screening results. Predix has developed proprietary algorithms for ranking its *in silico* screening results using internally developed tools, which Predix believes enables it to select the 100-200 most promising compounds for *in vitro* testing.

Integrated structure-based lead optimization. The most promising novel lead compounds, identified *in silico* and shown to have binding affinity and functionality *in vitro,* are optimized into drug candidates using an integrated structure-based approach. This process makes use of the PREDICT 3D structures (of the drug target and related off-target proteins) as well as many other *in silico* tools that Predix has created to enable efficient structure-based lead optimization, leading to highly selective drug candidates. Predix believes that these tools help overcome challenges frequently encountered during lead optimization, such as selectivity, blood-brain barrier penetration and hERG ion channel binding, reducing the time and cost compared to traditional lead optimization efforts. Using these *in silico* tools, Predix s computational and medicinal chemists are able to select for actual synthesis the most promising subset of suggested compounds. In each of its clinical-stage programs, this approach has allowed Predix to synthesize less than 10% of the compounds than it believes would have been synthesized if Predix were to follow the traditional methods of lead optimization.

Using its proprietary technology and approach, Predix was able to repeatedly optimize lead compounds to drug candidates on timelines of no more than 12 months, with fewer than 100 compounds synthesized per program during lead optimization. Predix has successfully optimized lead compounds to drug candidates in its three most advanced GPCR programs within these specified parameters:

PRX-00023: Predix optimized PRX-00023, the novel, highly selective 5-HT1A agonist that it is developing for the treatment of anxiety and depression, from the initial *in silico* lead in less than six months with only 31 compounds synthesized.

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PRX-03140: Predix optimized PRX-03140, the novel, highly selective 5-HT4 agonist that it is developing for the treatment of Alzheimer s disease, from the initial *in silico* lead in eight months with fewer than 50 compounds synthesized.

PRX-08066: Predix optimized PRX-08066, the novel, highly selective 5-HT2B antagonist that it is developing for the treatment of pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease, from the initial *in silico* lead in ten months with fewer than 80 compounds synthesized.

In each of these programs, Predix was able to move from lead identification to clinical trials in less than 18 months. Although Predix s drug discovery capabilities and approach have not been applied to all types of GPCRs or ion channels that are targeted for therapeutics, Predix believes that its technology and approach to drug discovery is applicable to most types of GPCRs and ion channels.

Technology License Agreement with Ramot

Predix s proprietary drug discovery technology and approach is in part embodied in technology that it licenses from Ramot at Tel Aviv University Ltd., the technology transfer company of Tel Aviv University. Pursuant to this license, Predix has exclusive, worldwide rights to certain technology developed at Tel Aviv University to develop, commercialize and sell products for the treatment of diseases or conditions in humans and animals. The licensed technology, as continually modified and enhanced by Predix, consists in large part of computer-based models of biological receptors and methods of designing drugs to bind to those receptors.

All of Predix s current clinical-stage drug candidates, PRX-00023, PRX-03140, PRX-08066 and PRX-07034, were identified, characterized or developed using the licensed technology, and Predix would be required to make payments to Ramot, as described below, if rights to any such drug candidates are ever sublicensed or commercialized. In addition, Predix has used the licensed technology in all of its pre-clinical-stage programs, except for the atrial fibrillation program, and would expect to make payments to Ramot if rights to any drug candidates were ever commercialized from any of these programs.

Predix paid Ramot an upfront fee of $40,000 upon the grant of the license. Under the license, Predix has an obligation to make royalty payments to Ramot on its net sales of products that are identified, characterized or developed through the use of the licensed technology that are either 1.5% or 2.5% of such net sales (depending upon the degree to which the product needed to be modified after being identified, characterized or developed through the use of the licensed technology) and decrease as the volume of sales increases. The royalty obligation for each product expires on a country-by-country basis twelve years after the first commercial sale. There is also an annual minimum royalty payment obligation of $10,000 per year due beginning December 31, 2005.

Predix is also required to share between 5% and 10% of the consideration that it receives from parties to whom Predix grants sublicenses of rights in the Ramot technology or sublicenses of rights in products identified, characterized or developed with the use of such technology and between 2% and 4% of consideration that it receives from performing services using such technology. As such a sublicense, in connection with Predix s collaboration with Cystic Fibrosis Foundation Therapeutics Incorporated, Predix paid $100,000 of the $2 million upfront payment to Ramot.

The license may be terminated by either party upon a material breach by the other party unless cured within 30 days, in the case of a payment breach, and 90 days in the case of any other breach. The license may also be terminated by either party in connection with the bankruptcy or insolvency of the other party. The license expires upon the expiration of Predix s obligation to make payments to Ramot. Therefore, because Predix has an ongoing obligation to pay annual minimum royalties to Ramot as described above, the license may not expire and may only terminate upon a breach by, or bankruptcy of, a party.

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Collaboration with Cystic Fibrosis Foundation Therapeutics Incorporated

In March 2005, Predix entered into a research, development and commercialization agreement with Cystic Fibrosis Foundation Therapeutics Incorporated, or CFFT, the drug discovery and development affiliate of the Cystic Fibrosis Foundation. To date, Predix has received approximately $6.1 million from CFFT under this agreement, consisting of a $2.0 million upfront payment, approximately $3.3 million of reimbursed research and development costs and a milestone payment of $750,000. The milestone payment, which was received in July 2006, relates to the first development program described below. Including the payments already received, Predix may receive up to an aggregate of $12.5 million from CFFT under this agreement. The agreement involves two development programs as follows:

The first program is focused on the defective Cystic Fibrosis Transmembrane conductance Regulator, or CFTR, ion channel protein. Predix is using its proprietary structure-based technologies to model the structure of this ion channel and identify sites in the channel for therapeutic intervention. Once these sites are identified, Predix aims to use its drug discovery capabilities to discover a drug that restores proper functionality to the channel in patients with cystic fibrosis. If the preliminary program is successful, Predix and CFFT have agreed to negotiate towards a follow-on agreement under which Predix will explore a structure-based approach for the discovery and commercialization of a drug that will target CFTR, with the financial support of CFFT and subject to a royalty payable to CFFT.

The second program is focused on the discovery of a small-molecule agonist to the G-Protein Coupled Receptor known as P2Y(2), which plays a role in cystic fibrosis, using Predix s proprietary structure-based drug design system. Predix retains the right to develop and commercialize any drug candidates discovered through this second program, and are obligated to make aggregate royalty payments of up to $15 million to CFFT for the first drug candidate that reaches particular regulatory and sales milestones.

The agreement expires with respect to the first program on March 7, 2008 and with respect to the second program on March 7, 2007, unless extended by the parties or terminated by either party beforehand. In addition, funding of the first program was scheduled to terminate on March 7, 2006 if Predix did not achieve certain technical milestones by such date. CFFT is currently reviewing the progress of the first program to determine if $1.0 million of the remaining $7.7 million of potential funding will be provided to Predix. CFFT may terminate either or both programs without cause upon 120 days notice or if Predix suspends or discontinues its business. Either party may terminate the agreement for an uncured material breach.

Competition

Predix faces, and will continue to face, intense competition from pharmaceutical and biotechnology companies, as well as numerous academic and research institutions and governmental agencies engaged in drug discovery activities or funding, both in the United States and abroad. Some of these competitors are pursuing the development of drugs that target the same diseases and conditions that Predix is targeting for its clinical and pre-clinical programs. Even if Predix and its collaborators are successful in developing Predix s clinical-stage candidates, the resulting products will compete with a variety of established drugs.

Significant competitors in the area of drug discovery focused on G-Protein Coupled Receptors, or GPCRs, include Arena Pharmaceuticals, Acadia Pharmaceuticals and 7TM Pharma, and for ion channels Predix s competitors include Icagen, Cardiome and Vertex Pharmaceuticals. In addition, most large pharmaceutical companies have drug discovery programs that target GPCRs and ion channels.

Many of Predix s competitors have significantly greater financial, manufacturing, marketing and product development experience and resources than Predix. These companies also have significantly greater research and development capabilities than Predix, and significantly greater experience than Predix in pre-clinical and clinical trials of potential pharmaceutical products, and in obtaining FDA and other regulatory clearances. Predix s commercial opportunity will be reduced or eliminated if its competitors develop and

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commercialize products that are safer, more effective, have fewer side effects or are less expensive than any products that Predix may develop.

If Predix s three most advanced clinical-stage drug candidates are approved, they will compete with currently approved drugs and potentially with drug candidates currently in development for the same indications, including the following:

PRX-00023. If approved, PRX-00023, the drug candidate that Predix is developing for the treatment of anxiety and depression, will compete with approved products from such pharmaceutical companies as Forest Laboratories, GlaxoSmithKline, Pfizer and Wyeth, and may compete with drug candidates in clinical development from other companies, including Eli Lilly and MediciNova. Predix believes that there are over 35 drug candidates in clinical trials or that have been submitted for approval for the treatment of anxiety and over 45 drug candidates in clinical trials or that have been submitted for approval for the treatment of depression.

PRX-03140. If approved, PRX-03140, the drug candidate that Predix is developing for the treatment of Alzheimer s disease, will compete with approved products from such pharmaceutical companies as Forest Laboratories, Johnson & Johnson, Novartis and Pfizer, and may compete with drug candidates in clinical development from other companies, including Myriad Genetics and Neurochem. Predix believes that there are over 60 drug candidates in clinical trials for the treatment of Alzheimer s disease.

PRX-08066. If approved, PRX-08066, the drug candidate that Predix is developing for the treatment of pulmonary arterial hypertension and pulmonary hypertension associated with chronic obstructive pulmonary disease, will compete with approved products from such pharmaceutical companies as Actelion, CoTherix, GlaxoSmithKline, Pfizer and United Therapeutics, and may compete with drug candidates in clinical development by other companies, such as Encysive Pharmaceuticals and Myogen. Predix believes that there are approximately ten drug candidates in clinical trials or that have been submitted for approval for the treatment of pulmonary arterial hypertension and/or pulmonary hypertension associated with chronic obstructive pulmonary disease.

In each of Predix s development programs addressing indications for which there are therapies available, Predix intends to complete clinical trials designed to evaluate the potential advantages of its drug candidates as compared to or in conjunction with the current standard of care. Key differentiating elements affecting the success of all of Predix s drug candidates are likely to be their efficacy and safety and side-effect profile compared to commonly used therapies. In addition, many patents covering commercial products for these indications will expire within the next four to nine years, which will result in greater competition in these indications resulting from companies producing generic versions of the commercial drugs.

Marketing, Sales and Distribution

Predix currently has no marketing, sales or distribution capabilities. To commercialize any of its drug candidates, Predix must develop these capabilities internally or through collaboration with pharmaceutical or biotechnology companies. In selected indications where Predix believes that its products can be commercialized by a specialty sales force that calls on a limited but focused group of physicians, Predix may commercialize its products in the United States. For example, Predix believes that pulmonary and cardiology specialists who treat pulmonary hypertension, and the centers in which they practice, are sufficiently concentrated to enable Predix to effectively promote PRX-08066, if approved by the FDA, to this market in the United States. with a small internal sales force. In therapeutic areas that require a large sales force selling to a large and diverse prescribing population and for markets outside of the United States, Predix plans to establish collaborations with pharmaceutical or biotechnology companies for commercialization of its drug candidates. Predix is in discussions regarding such potential collaborations. However, Predix does not currently have any agreement or arrangement with respect to such a collaboration.

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Manufacturing

Predix outsources and plans to continue to outsource manufacturing responsibilities to third parties for its existing and future drug candidates for clinical development and commercial purposes. Predix currently relies on Aptuit, Inc. for its drug product manufacturing and testing, and on Johnson Matthey Pharma Services for the manufacture and testing of its active pharmaceutical ingredients. Predix s agreements with these suppliers generally operate on a work order basis, with no minimum purchase requirements and are generally terminable by Predix upon 60 days and 90 days prior written notice, respectively. Small amounts of material used for pre-clinical research and development purposes are synthesized in-house. The production of Predix s drug candidates PRX-00023, PRX-03140, PRX-08066 and PRX-07034 uses small-molecule synthetic organic chemistry procedures that are standard in the pharmaceutical industry. Predix is currently working with its contract manufacturers to produce sufficient quantities of the active pharmaceutical ingredient and drug product in each of its programs for its planned clinical trials in 2006. If one of Predix s manufacturers should become unavailable to it for any reason, Predix believes that there are a number of potential replacements as its processes are not manufacturer-specific, though Predix may incur some added cost and delay in identifying or qualifying such replacements, including delays associated with the need for FDA review and approval of the new manufacturer, as well as those associated with the new manufacturer s ability to establish the manufacturing process.

PRX-00023, PRX-03140, PRX-08066 and PRX-07034 are manufactured in a straightforward synthetic process from readily available starting materials. There are no complicated chemistries or unusual equipment required in the manufacturing process of these drug candidates.

PRX-00023, PRX-03140, PRX-08066 and PRX-07034 are all currently administered as unformulated drug products. A commercially viable formulation will need to be developed, manufactured and certified for each of these drug candidates. The final commercial formulation may not prove to be bioequivalent to the current formulation. This may result in the need to initiate additional clinical trials to define new dosing regimes. Furthermore, the development and implementation of a new formulation and commercial process for cGMP manufacturing may add significant delays to additional clinical trials, regulatory filings and commercial launch.

Intellectual Property

Predix actively seeks to protect the proprietary technology that it considers important to its business, including chemical species, compositions and formulations, their methods of use and processes for their manufacture, as new intellectual property is developed. In addition to seeking patent protection in the United States, Predix plans to selectively file patent applications in certain additional foreign countries in order to further protect the inventions that Predix considers important to the development of its foreign business. Predix also relies upon trade secrets and contracts to protect its proprietary information.

As of June 28, 2006, Predix s patent portfolio included a total of 18 pending patent applications in the United States as well as counterpart applications in certain foreign countries having composition of matter, method of use and process claims related to Predix s programs. PRX-00023 is the subject of one pending patent application filed in 21 jurisdictions since 2004. PRX-03140 is the subject of three pending patent applications filed in six jurisdictions since 2004. PRX-08066 is the subject of the U.S. Patent 7,030,240, and two other pending patent applications filed in 23 jurisdictions since 2004. PRX-07034 is the subject of two pending patent applications filed in two jurisdictions. Predix owns all of these patent applications, and Predix also exclusively licenses technology embodied in patent applications from Ramot at Tel Aviv University Ltd., the technology transfer company of Tel Aviv University. Predix does not yet have any issued U.S. patents covering its technology, but any patents that do issue will have patent terms that will expire no earlier than 2023.

In addition to patents, Predix relies where necessary upon unpatented trade secrets and know-how and continuing technological innovation to develop and maintain its competitive position. Predix seeks to protect its proprietary information, in part, using confidentiality agreements with its collaborators, employees and consultants and invention assignment agreements with its employees. These agreements

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may be breached, and Predix may not have adequate remedies for any breach. In addition, Predix s trade secrets may otherwise become known or be independently discovered by competitors. To the extent that Predix s collaborators, employees and consultants use intellectual property owned by others in their work for Predix, disputes may arise as to the rights in related or resulting know-how and inventions.

Government Regulation and Product Approval

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture and marketing of pharmaceutical products. These agencies and other federal, state and local entities regulate, among other things, the testing, manufacture, quality control, safety, effectiveness, labeling, storage, record keeping, advertising and promotion of Predix s products. Failure to comply with regulatory requirements may result in criminal prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other actions that could affect Predix s product candidates or Predix. Any failure to comply with regulatory requirements, to obtain and maintain regulatory approvals, or any delay in obtaining regulatory approvals could materially adversely affect Predix s business.

The process required by the FDA before drugs may be marketed in the United States generally involves the following:

pre-clinical laboratory and animal studies;

submission of an investigational new drug application, or IND, which must become effective before human clinical trials may begin;

adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug for its intended use; and

FDA approval of a new drug application, or NDA.

The testing and approval process requires substantial time, effort and financial resources, and Predix cannot be certain that any approvals for any of its drug candidates will be granted on a timely basis, if at all.

Once a pharmaceutical candidate is identified for development it enters the pre-clinical testing stage. During pre-clinical studies, laboratory and animal studies are conducted to show biological activity of the drug candidate in animals, both healthy and with the targeted disease. Also, pre-clinical tests evaluate the safety of drug candidates. Pre-clinical tests must be conducted in compliance with good laboratory practice regulations. In some cases, long-term pre-clinical studies are conducted while clinical studies are ongoing.

Prior to commencing a clinical trial, Predix must submit an IND to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the trial. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Predix s submission of an IND may not result in FDA authorization to commence a clinical trial. All clinical trials must be conducted under the supervision of one or more qualified investigators in accordance with good clinical practice regulations. These regulations include the requirement that all subjects provide informed consent. Further, an institutional review board at each institution participating in the clinical trial must review and approve the plan for any clinical trial before it commences at that institution. Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and more frequently if adverse events or other certain types of other changes occur.

Human clinical trials are typically conducted in three sequential phases that may overlap:

Phase I: The drug is initially introduced into healthy human subjects or patients with the disease and tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion.

Phase II: Involves studies in a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.

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Phase III: Clinical trials are undertaken to further evaluate dosage, clinical efficacy and safety in an expanded patient population at geographically dispersed clinical study sites. These studies are intended to establish the overall risk-benefit ratio of the product and provide, if appropriate, an adequate basis for product labeling.

In the case of some products for severe or life-threatening diseases, especially when the product may be too inherently toxic to ethically administer to healthy volunteers, the initial human testing is often conducted in patients. Because these patients already have the target disease, these studies may provide initial evidence of efficacy traditionally obtained in Phase II clinical trials, and thus these trials are frequently referred to as Phase I/ II clinical trials.

The FDA or an institutional review board or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

Concurrent with clinical trials and pre-clinical studies, companies also must develop information about the chemistry and physical characteristics of the drug and finalize a process for manufacturing the product in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the product candidate and the manufacturer must develop methods for testing the quality, purity and potency of the final drugs. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the product candidate does not undergo unacceptable deterioration over its shelf-life.

The results of product development, pre-clinical studies and clinical studies, along with descriptions of the manufacturing process, analytical tests conducted on the chemistry of the drug, results of chemical studies and other relevant information are submitted to the FDA as part of an NDA requesting approval to market the product. The FDA reviews all NDAs submitted before it accepts them for filing. It may request additional information rather than accept an NDA for filing. In this event, the NDA must be resubmitted with the additional information. The resubmitted application also is subject to review before the FDA accepts it for filing. Once the submission is accepted for filing, the FDA begins an in-depth review of the NDA. The submission of an NDA is subject to the payment of user fees, but a waiver of such fees may be obtained under certain circumstances. The FDA may refuse to approve an NDA if the applicable regulatory criteria are not satisfied or may require additional clinical or other data. Even if such data is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Once an approval is granted, the FDA may withdraw the approval if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. In addition, the FDA may require testing and surveillance programs to monitor the effect of approved products that have been commercialized, and the FDA has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs.

Satisfaction of FDA requirements or similar requirements of state, local and foreign regulatory agencies typically takes at least several years and the actual time required may vary substantially, based upon, among other things, the type, complexity and novelty of the product or disease. Government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. Success in early-stage clinical trials does not assure success in later-stage clinical trials. Data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. Even if a product receives regulatory approval, the approval may be significantly limited to specific diseases and dosages. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market. Delays in obtaining, or failures to obtain regulatory approvals for any drug candidate could substantially harm Predix s business and cause its stock price to drop significantly. In addition, Predix cannot predict what adverse governmental regulations may arise from future U.S. or foreign governmental action.

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Any drug products manufactured or distributed by Predix pursuant to FDA approvals are subject to continuing regulation by the FDA, including, among other things, record-keeping requirements, reporting of adverse experiences with the drug, drug sampling and distribution requirements, notifying the FDA and gaining its approval of certain manufacturing or labeling changes, complying with certain electronic records and signature requirements and complying with FDA promotion and advertising requirements. Drug manufacturers and their subcontractors are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with cGMP, which impose certain procedural and documentation requirements upon Predix and its contract manufacturers. Predix cannot be certain that it or its present or future suppliers will be able to comply with the pharmaceutical cGMP regulations and other FDA regulatory requirements.

The FDA s policies may change and additional government regulations may be enacted which could prevent or delay regulatory approval of Predix s drug candidates. Predix cannot predict the likelihood, nature or extent of adverse governmental regulation, which might arise from future legislative or administrative action, either in the United States or abroad.

Under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a rare disease or condition, which is generally a disease or condition that affects fewer than 200,000 individuals in the U.S. Orphan drug designation must be requested before submitting an NDA. After the FDA grants orphan drug designation, the identity of the therapeutic agent and its potential orphan use are disclosed publicly by the FDA. Orphan drug designation does not convey any advantage in or shorten the duration of the regulatory review and approval process. If a product that has orphan drug designation subsequently receives FDA approval for the disease for which it has such designation, the product is entitled to orphan product exclusivity, which means that the FDA may not approve any other applications to market the same drug for the same indication, except in very limited circumstances, for seven years. Orphan drug exclusivity, however, also could block the approval of our product for seven years if a competitor obtains approval of the same drug as defined by the FDA or if Predix s product is determined to be contained within the competitor s product for the same indication or disease. Predix intends to file for orphan drug designation for those diseases that meet the criteria for orphan designation, including PRX-08066 for the treatment of pulmonary arterial hypertension. There is no guarantee that Predix will be awarded orphan exclusivity for PRX-08066 or for any other products or indications. In addition, obtaining FDA approval to market a product with orphan drug exclusivity may not provide Predix with a material commercial advantage.

The FDA Modernization Act of 1997 included a pediatric exclusivity provision that was extended by the Best Pharmaceuticals for Children Act of 2002. Pediatric exclusivity is designed to provide an incentive to manufacturers for conducting research about the safety of their products in children. Pediatric exclusivity, if granted, provides an additional six months of market exclusivity in the United States for new or currently marketed drugs. Under Section 505a of the Federal Food, Drug and Cosmetic Act, six months of market exclusivity may be granted in exchange for the voluntary completion of pediatric studies in accordance with an FDA-issued Written Request. The FDA may issue a Written Request for studies on unapproved or approved indications, where it determines that information relating to the use of a drug in a pediatric population, or part of the pediatric population, may produce health benefits in that population. Predix has not requested or received a Written Request for such pediatric studies, although Predix may ask the FDA to issue a Written Request for such studies in the future. To receive the six-month pediatric market exclusivity, Predix would have to receive a Written Request from the FDA, conduct the requested studies and submit reports of the studies in accordance with a written agreement with the FDA or, if there is no written agreement, in accordance with commonly accepted scientific principles. There is no guarantee that the FDA will issue a Written Request for such studies or accept the reports of the studies. The current pediatric exclusivity provision is scheduled to end on October 1, 2007 and it may not be reauthorized.

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Reimbursement

Sales of biopharmaceutical products depend in significant part on the availability of third-party reimbursement. Predix intends to seek reimbursement from third-party payors with respect to any products that may be approved in the future. It is time consuming and expensive for Predix to seek reimbursement from third-party payors. Reimbursement may not be available or sufficient to allow Predix to sell its products on a competitive and profitable basis.

The passage of the Medicare Prescription Drug and Modernization Act of 2003, or the MMA, imposes new requirements for the distribution and pricing of prescription drugs for Medicare beneficiaries, which may affect the marketing of Predix s products. The MMA also introduced a new reimbursement methodology, part of which went into effect in 2004. At this point, it is not clear what effect the MMA will have on the prices paid for currently approved drugs and the pricing options for new drugs approved after January 1, 2006. Moreover, while the MMA applies only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in setting their own payment rates. Any reduction in payment that results from the MMA may result in a similar reduction in payments from non-governmental payors.

In addition, in some foreign countries, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country. For example, the European Union provides options for its member states to restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. A member state may approve a specific price for the medicinal product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market.

Predix expects that there will continue to be a number of federal and state proposals to implement governmental pricing controls. While Predix cannot predict whether such legislative or regulatory proposals will be adopted, the adoption of such proposals could have a material adverse effect on Predix s business, financial condition and profitability.

Employees

Predix believes that its success will depend greatly on its ability to identify, attract and retain capable employees. As of June 28, 2006, Predix had 51 full time employees, including a total of 33 employees who hold M.D. or Ph.D. degrees, 44 of its employees are primarily engaged in research and development activities, and 7 are primarily engaged in general and administrative activities. Predix s employees are not represented by any collective bargaining unit.

Properties

Predix s operations are based primarily in Lexington, Massachusetts. Predix currently leases and occupies the following properties:

Location	Approximate Square Feet	Use	Lease Expiration Date
Maguire Road, Lexington, Massachusetts	27,500	Office & Laboratory	October 15, 2012
Hayetzira Street, Ramat Gan, Israel	6,458	Office & Laboratory	October 14, 2006

In addition, Predix also leases approximately 25,338 square feet of space in Princeton, New Jersey under a lease that expires on July 1, 2011. Predix subleases all of this space to a single tenant under a sublease that expires on June 30, 2011.

Legal Proceedings

From time to time in the ordinary course of business, Predix is subject to various claims, charges and litigation. Currently, Predix is not a party to any current material legal proceedings.

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PREDIX MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of Predix s financial condition and results of operations in conjunction with Predix s consolidated financial statements and the related notes included elsewhere in this joint proxy statement/ prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, including those set forth under the section entitled Risk Factors and elsewhere in this joint proxy statement/ prospectus, Predix s actual results may differ materially from those anticipated in these forward-looking statements.

Overview

Predix is a pharmaceutical company focused on the discovery and development of novel, highly selective, small-molecule drugs that target G-Protein Coupled Receptors, or GPCRs, and ion channels. Combined with a focused drug development and regulatory strategy, Predix s proprietary drug discovery technology and approach has enabled it to discover, develop, and advance four drug candidates into clinical trials in less than four years, one of which commenced a Phase I clinical trial on June 2, 2006. Predix is expecting to complete the first of at least two pivotal Phase III clinical trials for generalized anxiety disorder for its lead drug candidate PRX-00023 in the second half of 2006. Predix completed a Phase IIa clinical trial of PRX-00023 in this indication in July 2005. Predix has two other clinical-stage drug candidates that have completed Phase I clinical trials: PRX-03140 for the treatment of Alzheimer s disease that is expected to enter Phase II trials in the second half of 2006, and PRX-08066 for the treatment of two types of pulmonary hypertension, which are pulmonary hypertension associated with chronic obstructive pulmonary disease that is expected to enter Phase II trials in the second half of 2006, and pulmonary arterial hypertension. In addition, on June 2, 2006, Predix commenced a Phase I clinical trial of its PRX-07034 drug candidate for the treatment of obesity and cognitive impairment (associated with Alzheimer s disease and schizophrenia).

Predix was incorporated in Delaware on November 2, 1994 as Takhus Pharmaceuticals, Inc. and changed its name in December 1996 to Physiome Sciences, Inc. Prior to 2003, Predix was focused on the development and commercialization of software and databases used to support the discovery and development of new drugs. In late 2002, Predix s board of directors decided to change the business focus of the company and began actively pursuing the sale or merger of the company to or with a company engaged in drug discovery. In August 2003, Predix acquired all of the capital stock of Predix Pharmaceuticals Ltd., an Israeli corporation, and changed Predix s name to Predix Pharmaceuticals Holdings, Inc. Subsequent to Predix s acquisition of Predix Pharmaceuticals Ltd., Predix changed Predix s business focus to drug discovery and development focusing on GPCRs and ion channels, using Predix s software, together with the proprietary technology Predix acquired. The acquisition was accounted for under the purchase method of accounting. The purchase price of $7.7 million was funded with Predix s capital stock. The purchase price was allocated to the net tangible assets acquired ($1.0 million), with the significant majority of the purchase price ($6.7 million) being allocated to in-process research and development intangibles, which were charged to operating expenses at the acquisition date. Since Predix Pharmaceuticals Ltd. was a development stage enterprise at the time of the acquisition, no goodwill was recorded. As a result of the acquisition of Predix Pharmaceuticals Ltd. and the shift in Predix s business focus, Predix consolidated facilities and reduced headcount which resulted in a restructuring charge in 2003 of $5.4 million.

Predix has never been profitable and, as of December 31, 2005, Predix had an accumulated deficit of $121.4 million. Predix had net losses of $33.7 million for the year ended December 31, 2005, $19.4 million for the year ended December 31, 2004, $24.6 million for the year ended December 31, 2003. Prior to Predix s shift in business focus, Predix generated revenue from software licensing. Predix no longer sells or licenses software. However, the software is used internally in Predix s ion channel discovery programs. Predix has funded Predix s operations primarily through private placements of equity securities. From inception through December 31, 2005, Predix has raised net proceeds of $112.4 million from private equity financings, including $43.0 million in net proceeds from the sale of Predix s Series C convertible preferred

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stock in late 2004 and early 2005. In late March and early April 2006, Predix received $9.5 million in proceeds from a convertible bridge financing. The loan amount is payable upon closing of the merger or becomes convertible into Predix stock within one year if the merger is not consummated. Predix expects to incur significant and increasing operating losses for at least the foreseeable future as Predix advances Predix s drug candidates from discovery through pre-clinical and clinical trials and seek regulatory approval and eventual commercialization. In addition to these increasing research and development expenses, Predix expects general and administrative costs to increase significantly as Predix adds personnel.

Predix s future success will be dependent on the successful development and commercialization of Predix s drug candidates, including PRX-00023, PRX-03140, PRX-08066 and PRX-07034. To date, Predix has not generated any revenue from the sale of any pharmaceutical product. Predix does not have the required regulatory approvals to market any of Predix s drug candidates, and Predix may never receive them. Predix s business is subject to significant risks, including but not limited to the risks inherent in Predix s ongoing clinical trials and the regulatory approval process, the results of Predix s research and development efforts, competition from other products and technologies and uncertainties associated with obtaining and enforcing patent rights. Predix may not be profitable even if Predix succeeds in commercializing any of Predix s drug candidates.

Discovery Alliance

In March 2005, Predix entered into a research, development and commercialization agreement with Cystic Fibrosis Foundation Therapeutics Incorporated, or CFFT, the drug discovery and development affiliate of the Cystic Fibrosis Foundation. In connection with this agreement, Predix received an upfront payment of $2.0 million and may be entitled to receive additional funding in the form of research funding and milestone payments. The agreement covers two research programs, one of which has a term of two years and the second of which has a term of three years. CFFT may terminate either or both programs without cause upon 120 days notice. In July 2006, Predix received its first milestone payment of $750,000 under this agreement.

Predix is recognizing the $2.0 million upfront payment as revenue ratably over the three-year term. The reimbursements of research and development costs are being recognized as revenue as the related costs are incurred. As Predix is the party responsible for providing the research services, Predix is recognizing the reimbursements of the costs associated with Predix s research efforts as revenue, not as a net research expense. Predix will recognize any milestone payments as revenue when the related performance obligation, as defined in the agreement, is achieved.

Critical Accounting Policies

The discussion and analysis of Predix s financial condition and results of operations are based on Predix s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Predix to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, Predix evaluates Predix s estimates and judgments, including those related to revenue recognition, accrued expenses, research and development and the fair valuation of stock related to stock-based compensation. Predix bases Predix s estimates on historical experience and on various other assumptions that Predix believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While Predix s significant accounting policies are more fully described in Note 2 to Predix s consolidated financial statements included in this prospectus, Predix believes the following accounting policies are critical to understanding and evaluating Predix s reported financial results.

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Revenue Recognition

Collaboration Revenue

Predix recognizes revenue relating to collaborations in accordance with the Securities and Exchange Commission s Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition in Financial Statements*, or SAB 104. Revenue under collaborations may include the receipt of non-refundable license fees, milestone payments and research and development payments.

Predix recognizes nonrefundable upfront license fees and guaranteed, time-based payments that require continuing involvement in the form of research and development as revenue:

ratably over the development period; or

based upon the level of research services performed during the period of the research contract.

When the period of deferral cannot be specifically identified from the contract, management estimates the period based upon other critical factors contained within the contract. Predix continually reviews such estimates which could result in a change in the deferral period and might impact the timing and amount of revenue recognized.

In accordance with Predix s policy, Predix is recognizing revenue from the $2.0 million upfront payment from CFFT over the development period, the three-year term of the agreement.

Milestone payments are recognized as revenue when the performance obligations, as defined in the contract, are achieved. Performance obligations typically consist of significant milestones in the development life cycle of the related technology, such as initiation of clinical trials, filing for approval with regulatory agencies and approvals by regulatory agencies.

Royalties are recognized as revenue when earned.

Reimbursements of research and development costs are recognized as revenue as the related costs are incurred.

Other Revenue

Prior to 2003, Predix s business focused on developing and licensing software and databases used to support the discovery and development of new drugs. Predix s business is now focused on the discovery and development of G-Protein Coupled Receptor and ion channel-targeted drugs, using Predix s software together with the proprietary technology Predix acquired from Predix Pharmaceuticals Ltd., which was never licensed externally. Predix no longer licenses or sells software. The revenue generated from the licensing of this software was recognized in accordance with the American Institute of Certified Public Accountants Statement of Position, or SOP, 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Software Revenue Recognition, with Respect to Certain Arrangements*. The products and services underlying these arrangements were considered elements in a multiple-element arrangement. Revenue under such multiple-element arrangements were allocated to each element based on the residual method.

Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized when earned. Predix had established sufficient vendor-specific objective evidence of fair value for the undelivered elements. Accordingly, systems revenue was recognized under the residual method in arrangements in which a system was sold.

Accrued Expenses

As part of the process of preparing financial statements, Predix is required to estimate accrued expenses. This process involves identifying services that have been performed on Predix s behalf and estimating the level of service to be performed and the associated cost incurred for such service where

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Predix has not been invoiced or otherwise notified of actual costs. This is done as of each balance sheet date in Predix s consolidated financial statements. Examples of estimated accrued expenses include:

professional service fees;

contract clinical service fees;

fees paid to data management organizations and investigators in conjunction with clinical trials; and

fees paid to contract manufacturers in conjunction with the production of clinical materials.

In connection with such service fees, Predix s estimates are most affected by Predix s projections of the timing of services provided relative to the actual level of services incurred by such service providers. The majority of Predix s service providers invoice Predix in arrears for services performed. In the event that Predix does not identify certain costs that have begun to be incurred or Predix under or over estimates the level of services performed or the costs of such services, Predix s actual expenses could differ from such estimates. The date on which certain services commence, the level of services performed on or before a given date, and the cost of such services are often subjective determinations. Predix makes these judgments based upon the facts and circumstances known to Predix at the time of accrual in accordance with accounting principles generally accepted in the United States. To date, Predix has not had material changes in estimates.

Research and Development

Research and development expenses include the costs associated with Predix s internal research and development activities, including salaries and benefits, occupancy costs and research and development conducted for Predix by third parties, such as sponsored university-based research and contract research organizations. In addition, research and development expenses include the cost of clinical trial drug supply shipped to Predix s contract research organizations. Predix accounts for Predix s clinical trial costs by estimating the total cost to treat a patient in each clinical trial and recognizing this cost as and when the patient receives treatment, beginning when the patient enrolls in the trial. This estimated cost includes payments to the trial site and patient-related costs, including laboratory costs related to the conduct of the trial. Cost per patient varies based on the type of clinical trial, the site of the clinical trial and the length of the treatment period for each patient. As actual costs become known to us, Predix adjusts Predix s accrual; such changes in estimate may be a material change in Predix s clinical study accrual, which could also materially affect Predix s results of operations.

Stock-based Compensation Expense

Predix adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment An Amendment of FASB Statement No. 123 and 95*, or SFAS 123R, effective January 1, 2006. SFAS 123R requires the recognition of the fair value of stock-based compensation in Predix s operations, and accordingly the adoption of the SFAS 123R fair value method will have a significant impact on Predix s results of operations, although it will have no impact on Predix s overall financial position. Option valuation models require the input of highly subjective assumptions, including stock price volatility and expected term of an option. In connection with the adoption of SFAS 123R, Predix reassessed the valuation methodology for stock options and the related input assumptions. The assessment of the valuation methodology resulted in the continued use of the Black-Scholes model. As Predix is privately held, it does not have history as a publicly traded company to evaluate its volatility factor, expected term and forfeiture rates. As such, the Predix analyzed the volatilities, expected term and forfeiture rates of seven peer companies and a biotechnology stock index to support the assumptions used in its stock compensation expense calculation. Predix averaged the volatilities, expected term and forfeiture rates of the seven peer companies with in-the-money options, sufficient trading history and similar vesting terms to generate the assumptions used to calculate stock compensation expense.

Predix will continue to monitor employee exercise behavior and may adjust the estimated term and forfeiture rates in future periods. Increasing the estimated life would result in an increase in the fair value

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to be recognized over the requisite service period, generally the vesting period. Estimated forfeitures will be adjusted to actual forfeitures upon the vest date of the cancelled options as a cumulative catch up adjustment on a quarterly basis. Doing so could cause future expenses to vary at each reporting period.

Prior to January 1, 2006, Predix followed Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and related interpretations, in accounting for its stock-based compensation plans. Under APB 25, because the exercise price of the employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense was recognized. Predix elected the modified prospective transition method for adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, or SFAS 123, shall be recognized in Predix s statements of operations in the periods after the date of adoption.

Predix estimates stock-based compensation expense to be in the range of $2.0 million to $2.5 million in 2006, dependent upon market price, assumptions used in estimating the fair value as discussed above and the levels of share-based payments granted in 2006. Compensation expense related to stock options for the three months ended March 31, 2006 totaled $0.4 million.

As of March 31, 2006, the total remaining unrecognized compensation cost related to nonvested stock option awards amounted to approximately $1.8 million, including estimated forfeitures, which will be amortized over the weighted-average remaining requisite service periods of approximately 2.5 years.

Financial Operations Overview

Revenue

Predix does not currently have any commercial products for sale and do not anticipate having any commercial products for sale for at least the next several years, if at all. To date, Predix s revenue has been derived solely from licensing of software (prior to 2004) and from Predix s collaboration with CFFT entered into in March 2005. Under Predix s collaboration with CFFT, Predix received an upfront payment of $2.0 million. The upfront payment received from CFFT is being recognized as revenue ratably over Predix s period of involvement, which is the three-year term of the agreement, with the unrecognized balance being deferred. Under the agreement Predix is entitled to continued cost reimbursements and research funding and may earn milestone payments in accordance with the terms of the agreement. Any additional revenue that Predix may receive in the future is expected to consist primarily of milestone payments and payments for reimbursements of research and development costs. The reimbursements of research and development costs are being recognized as revenue as the related costs are incurred. As Predix is the party responsible for providing the research services, Predix is recognizing the reimbursements of the costs associated with Predix s research efforts as revenue, not as a net research expense. Predix will recognize any milestone payments as revenue when the related performance obligation, as defined in the agreement, is achieved.

Predix is no longer engaged in the business of selling software. Predix does not anticipate earning any significant additional software sales revenue.

Research and Development Expense

Research and development expense consists primarily of:

- salaries, benefits and related expenses for personnel engaged in research and development activities;
- fees paid to contract research organizations to manage and monitor clinical trials;
- fees paid to research organizations in conjunction with pre-clinical studies;
- fees paid to access chemical and intellectual property databases;

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costs of materials used in research and development and clinical studies;

academic testing and consulting, license and sponsored research fees paid to third parties; and

costs of facilities and equipment, including depreciation, used in research and development activities.

Predix expenses both internal and external research and development costs as incurred. Predix expects Predix s research and development expense to increase significantly as Predix continues to expand Predix s pipeline of drug candidates and to advance Predix s existing drug candidates through the clinical trial process. Predix expects that a large percentage of Predix s research and development expenses in the future will be incurred in support of Predix s current and future pre-clinical and clinical development programs. These expenditures are subject to numerous uncertainties in timing and cost to completion. Predix tests drug candidates in pre-clinical studies for safety, toxicology and efficacy. Predix then conducts early-stage clinical trials for each drug candidate. As Predix obtains results from trials, Predix may elect to discontinue or delay clinical trials for certain drug candidates in order to focus Predix s resources on more promising drug candidates.

Predix currently has four drug candidates in clinical development: PRX-00023, PRX-03140, PRX-08066 and PRX-07034. The following summarizes the applicable disease indication and the clinical status of its drug candidates as of March 31, 2006:

Drug Candidate	Disease Indication	Clinical Trial Status
PRX-00023	Generalized anxiety disorder	Phase III ongoing
PRX-03140	Alzheimer s disease	Completed Phase I
PRX-08066	Pulmonary hypertension	Completed Phase I

Completion of clinical trials may take several years or more, but the length of time can vary substantially according to a number of factors, including the type, complexity, novelty and intended use of a drug candidate. The cost of clinical trials, and therefore the amount and timing of Predix s capital requirements, may vary significantly over the life of a project as a result of differences arising during clinical development, including, among others:

the number of sites included in the trials;

the length of time required to enroll suitable patient subjects;

the number of patients that participate in the trials;

the duration of patient follow-up that seems appropriate in view of results; and

the efficacy and safety profile of the drug candidate.

Predix could incur increased clinical development costs if Predix experiences delays in clinical trial enrollment, delays in the evaluation of clinical trial results or delays in regulatory approvals. In addition, Predix faces significant uncertainty with respect to Predix s ability to enter into strategic collaborations with respect to Predix s drug candidates. As a result of these factors, it is difficult to estimate the cost and length of a clinical trial. Predix is unable to accurately and meaningfully estimate the cost to bring a product to market due to the variability in length of time to develop and obtain regulatory approval for a drug candidate.

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Predix estimates that clinical trials in Predix s areas of focus are typically completed over the following timelines, but delays can occur for many reasons including those set forth above:

Clinical Phase	Objective	Estimate Completion Period
Phase I	Establish safety in healthy volunteers and occasionally in patients; study how the drug works, is metabolized and interacts with other drugs	1-2 years
Phase II	Evaluate efficacy, optimal dosages and expanded evidence of safety	2-3 years
Phase III	Further evaluate efficacy and safety of the drug candidate in a larger patient population	2-3 years

If Predix successfully completes Phase III clinical trials of a drug candidate, Predix intends to submit the results of all of the clinical trials for such drug candidate to the FDA to support regulatory approval. Even if any of Predix s drug candidates receive regulatory approval, Predix may still be required to perform lengthy and costly post-marketing studies.

A major risk associated with the timely completion and commercialization of Predix s drug candidates is the ability to confirm safety and efficacy based on the data of long-term clinical trials. Predix cannot be certain that any of Predix s drug candidates will prove to be safe or effective, will receive regulatory approvals or will be successfully commercialized. In order to achieve marketing approval, the FDA or foreign regulatory agencies must conclude that Predix s clinical data establishes the safety and efficacy of Predix s drug candidates. If Predix s clinical-stage drug candidates are not successfully developed, future results of operations may be adversely affected.

Predix does not budget or manage Predix s research and development costs by project on a fully allocated basis. Consequently, fully loaded research and development costs by project are not available. Predix uses Predix s employee and infrastructure resources across several projects, and many of Predix s costs are not attributable to an individually-named project but are directed to broadly applicable research projects. As a result, Predix cannot state precisely the costs incurred for each of Predix s clinical and pre-clinical projects on a project-by-project basis. Predix estimates that, from inception through December 31, 2005, the total out-of-pocket payments made by Predix to third parties for pre-clinical study support, clinical supplies and clinical trials associated with PRX-00023, PRX-03140 and PRX-08066 are as follows:

	Year Ended December 31,			Three Months Ended March 31,	Inception Through March 31,
	2003	2004	2005	2006	2006
	(In thousands)				
PRX-00023	$ 2,340	$ 4,584	$ 5,917	$ 1,887	$ 14,728
PRX-03140		1,846	4,102	142	6,090
PRX-08066		709	6,268	1,074	8,051
	$ 2,340	$ 7,139	$ 16,287	$ 3,103	$ 28,869

Predix recorded a one-time, non-cash charge in 2003 of $6.6 million for acquired in-process research and development. The valuation of acquired in-process research and development represents the estimated fair value related to incomplete projects that, at the time of Predix s acquisition of Predix Pharmaceuticals Ltd., had no alternative future use.

The $6.7 million in-process technology Predix acquired from Predix Pharmaceuticals Ltd. consisted of three research and development projects, acquired technology and a portfolio of pending patent applications. The research and development projects included a pre-clinical early development drug candidate for the treatment of generalized anxiety disorder and depression (PRX-00023), and two lead optimization compound targeting Alzheimer s disease (PRX-03140) and chemotherapy induced emesis (i.e., vomiting), respectively. The early development candidate (PRX-00023) is now in Phase III clinical trials for generalized anxiety disorder. The Alzheimer s disease lead optimization compound (PRX-03140) is expected to enter Phase IIa clinical trials and the third research program was terminated.

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The technology acquired consisted in large part of computer-based models of biological receptors and methods of designing drugs to bind to those receptors. Predix Pharmaceuticals Ltd. licensed this technology from Ramot at Tel Aviv University Ltd., the technology transfer company of Tel Aviv University. At the time of acquisition this technology was novel and unproven. This acquired technology, after further development, is now in part embodied in Predix s proprietary drug discovery technology and approach.

As a result of the uncertainties discussed above, Predix is unable to determine the duration and completion costs of Predix s research and development projects or when and to what extent Predix will receive cash inflows from the commercialization and sale of a product.

Predix expects Predix s research and development expense to increase significantly for the foreseeable future as Predix advances Predix s drug candidates from discovery through pre-clinical and clinical trials and seek regulatory approval and eventual commercialization.

General and Administrative Expense

General and administrative expense consists primarily of salaries and other related costs for personnel serving executive, business development, finance and administrative functions. Other costs include facility costs not included in research and development expense, insurance, professional fees for legal, accounting and information technology services. Predix expects Predix s general and administrative expense to increase significantly as Predix hires new personnel and incur additional public company expenses relating to investor relations, reporting and other obligations.

Investment Income, Net

Investment income, net consists of interest earned on Predix s cash and cash equivalents offset by investment expenses.

Interest Expense

Interest expense consists of interest incurred on equipment leases.

Results of Operations

Three Months Ended March 31, 2006 and 2005

	Three Months Ended March 31,		
	2006	2005	Percentage Change
	(In thousands)		
Revenue	$ 784	$ 153	412%
Costs and expenses:			
Research and development	7,036	6,750	4%
General and administrative	1,475	942	57%
Restructuring	30	21	43%
Total costs and expenses	8,541	7,713	11%
Loss from operations	(7,757)	(7,560)	3%
Investment income, net	42	152	(72%)
Interest expense	(6)	(9)	(33%)
Net loss	$ (7,721)	$ (7,417)	4%

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Revenue

Revenue was $784,000 for the three months ended March 31, 2006 compared to $153,000 for the three months ended March 31, 2005, an increase of 412%. Revenue in both periods relates to Predix s collaboration with CFFT. The revenue in the 2006 period primarily relates to reimbursed research costs and the amortized portion of the upfront payment from Predix s collaboration with CFFT. The collaboration began in March 2005 and therefore the revenue in the 2005 period represents one month of reimbursed research costs and the amortized portion of the upfront payment from the CFFT collaboration. In connection with the execution of the CFFT agreement in March 2005, Predix received an upfront payment of $2.0 million. Predix is recognizing this upfront payment as revenue ratably over the three year contract term.

Research and Development Expense

Research and development expense was $7.0 million for the three months ended March 31, 2006 compared to $6.8 million for the three months ended March 31, 2005, an increase of 6%. The increase is primarily attributable to the increased pre-clinical and clinical development costs associated with an increase in the number of drug candidates Predix has in the clinic, including increased pre-clinical, clinical, manufacturing and personnel costs. During the three months ended March 31, 2006, Predix had three drug candidates in the clinic (PRX-00023, PRX-03140 and PRX-08066). During the three months ended March 31, 2005, Predix had two drug candidates in the clinic (PRX-00023 and PRX-03140). The increase in costs from period to period relates to an increase in expenses associated with the establishment and maintenance of these additional clinical trials. The increase was offset by a decrease in costs associated with the clinical trials for PRX-03140 as this drug candidate had completed its Phase I clinical trial in early 2006 and the Phase II clinical trial for this program has not yet been initiated. Predix expects its research and development expense to increase significantly for the foreseeable future as Predix advances its drug candidates from discovery through pre-clinical and clinical trials and seek regulatory approval and eventual commercialization.

General and Administrative Expense

General and administrative expense was $1.5 million for the three months ended March 31, 2006 compared to $0.9 million for the three months ended March 31, 2005, an increase of 57%. The increase is primarily attributable to the adoption of SFAS 123R, increased legal costs as well as an increase in salaries and benefits. During the three months ended March 31, 2006, Predix recorded $0.4 million of stock compensation expense versus none in the same period in 2005. During the first quarter of 2006, Predix was in discussions with EPIX relating to the proposed merger which was announced in April 2006. In connection with this transaction, Predix incurred approximately $0.4 million in increased legal costs primarily relating to due diligence and other deal related matters. Predix expects its general and administrative expense to increase significantly as Predix hires new personnel to support the growth of its operations.

Restructuring

As a result of Predix s acquisition of Predix Pharmaceuticals Ltd. and the shift in Predix s business focus, Predix consolidated facilities and reduced headcount which resulted in a restructuring charge in 2003 of $5.4 million. The restructuring charges for the three months ended March 31, 2006 and 2005 relate to the adjusting of the 2003 restructuring estimates to actual costs.

Investment Income, Net

Investment income, net was $42,000 for the three months ended March 31, 2006 compared to $152,000 for the three months ended March 31, 2005, a decrease of 72%. The decrease is primarily attributable to a significant decrease in interest income due to a decrease in the average balance of cash invested during the three months ended March 31, 2006 as compared to 2005. At March 31, 2006, Predix

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had cash and cash equivalents on hand of $7.9 million versus $29.4 million at March 31, 2005. From September 2004 through March 31, 2006, Predix raised net cash proceeds of approximately $43.0 million through the private placement of equity and $9.5 million in a debt financing which closed on March 31, 2006. Interest rate changes were not a significant component of the interest income decrease.

Interest Expense

Interest expense was $6,000 for the three months ended March 31, 2006 compared to $9,000 for the three months ended March 31, 2005, a decrease of 33%. The decrease is primarily attributable to a decrease in the average debt balance from period to period.

Years Ended December 31, 2005 and 2004

	Year Ended December 31,		
	2005	2004	Percentage Change
	(In thousands)		
Revenue	$ 2,300	$ 13	17,592%
Costs and expenses:			
Research and development	29,351	16,427	79%
General and administrative	7,031	3,011	134%
Restructuring	205	77	166%
Total costs and expenses	36,587	19,515	87%
Loss from operations	(34,287)	(19,502)	76%
Investment income, net	614	147	318%
Interest expense	(30)	(37)	(19%)
Net loss	$ (33,703)	$ (19,392)	74%

Revenue

Revenue was $2.3 million for the year ended December 31, 2005 compared to $13,000 for the year ended December 31, 2004, an increase of 17,592%. Revenue in the 2004 period relates to a 2003 software license of $13,000. The revenue in the 2005 period primarily relates to reimbursed research costs and the amortized portion of the upfront payment from Predix s collaboration with CFFT. In connection with the execution of the CFFT agreement in March 2005 Predix received an upfront payment of $2.0 million. Predix is recognizing this upfront payment as revenue ratably over the three year contract term. The revenue recognized during the twelve months ended December 31, 2005, primarily relates to the upfront payment amortization of $556,000 and reimbursed research services and costs of $1,737,000. Also included in the 2005 revenue is $7,000 from a software license.

Research and Development Expense

Research and development expense was $29.4 million for the year ended December 31, 2005 compared to $16.4 million for the year ended December 31, 2004, an increase of 79%. The increase is primarily attributable to the increased pre-clinical and clinical development costs of $10.2 million associated with an increase in the number of drug candidates Predix has in the clinic, including increased pre-clinical, clinical, manufacturing and personnel costs. Predix initiated a Phase I clinical trial for PRX-00023 in February 2004. During the year ended December 31, 2005, Predix had three drug candidates in the clinic (PRX-00023, PRX-03140 and PRX-08066). The increase in costs from period to period relates to an increase in expenses associated with the establishment and maintenance of these additional clinical trials. In addition, salaries and benefits for research and development personnel increased by

$1.7 million as headcount increased to support the additional drug candidates. Predix expects Predix s research and development expense to increase significantly for the foreseeable future as Predix advances Predix s drug

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candidates from discovery through pre-clinical and clinical trials and seek regulatory approval and eventual commercialization.

General and Administrative Expense

General and administrative expense was $7.0 million for the year ended December 31, 2005 compared to $3.0 million for the year ended December 31, 2004, an increase of 134%. The increase is primarily attributable to increased professional service costs for legal, accounting, public relations, and recruiting as well as an increase in salaries and benefits. During 2005, Predix filed for an Initial Public Offering which was subsequently withdrawn in October 2005. In connection with this, Predix incurred $1.4 million in professional services. Legal and accounting costs not associated with the attempted offering increased by $0.9 million, while public relations costs increased by $0.3 million and salaries and benefits increased by $0.6 million. In addition, other administrative costs, including insurance premiums and administrative office expenses associated with business growth have also increased. Predix expects Predix s general and administrative expense to increase significantly as Predix hires new personnel to support the growth of Predix s operations.

Restructuring

As a result of Predix s acquisition of Predix Pharmaceuticals Ltd. and the shift in Predix s business focus, Predix consolidated facilities and reduced headcount which resulted in a restructuring charge in 2003 of $5.4 million. The restructuring charges for the years ended December 31, 2005 and 2004 relate to the adjusting of the 2003 restructuring estimates to actual costs.

Investment Income, Net

Investment income, net was $614,000 for the year ended December 31, 2005 compared to $147,000 for the year ended December 31, 2004, an increase of 318%. The increase is primarily attributable to a significant increase in interest income due to an increase in the average balance of cash invested during 2005 as compared to 2004. From September 2004 through January 2005, Predix raised net cash proceeds of approximately $43.0 million through the private placement of equity. Interest rate changes were not a significant component of the interest income increase.

Interest Expense

Interest expense was $30,000 for the year ended December 31, 2005 compared to $37,000 for the year ended December 31, 2004, a decrease of 19%. The decrease is primarily attributable to a decrease in the average debt balance from period to period.

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Years Ended December 31, 2004 and 2003

	Year Ended December 31,		Percentage Change
	2004	2003	
	(In thousands)		
Revenue	$ 13	$ 1,068	(99)%
Costs and expenses:			
Research and development	16,427	14,632	12
General and administrative	3,011	5,782	(48)
Restructuring	77	5,350	(99)
Total costs and expenses	19,515	25,764	(24)
Loss from operations	(19,502)	(24,696)	(21)
Investment income, net	147	142	4
Interest expense	(37)	(6)	517
Net loss	$ (19,392)	$ (24,560)	(21)%

Change in Predix s Business Focus

Prior to 2003, Predix s business focused on the development and commercialization of software and databases used to support the discovery and development of new drugs. After the August 2003 acquisition of Predix Pharmaceuticals Ltd., Predix changed Predix s business focus and began using Predix s software, together with the proprietary technology Predix acquired, to focus on the discovery and development of G-Protein Coupled Receptor and ion channel-targeted drugs.

Revenue

Revenue was $13,000 for the year ended December 31, 2004 compared to $1.1 million for the year ended December 31, 2003, a decrease of 99%. Revenue in both periods relates to software licensing. The significant decrease in revenue is due to Predix s change in business focus. Prior to 2004 Predix generated revenue from licensing software. Beginning in 2003, Predix s business focus changed from software licensing to primarily engaging in drug discovery and development. Under Predix s current business model, Predix no longer sells or licenses software. The 2004 revenue relates to a 2003 software license.

Research and Development Expense

Research and development expense was $16.4 million for the year ended December 31, 2004 compared to $14.6 million for the year ended December 31, 2003, an increase of 12%. The increase is primarily attributable to Predix s change in business focus in 2003, which resulted in pre-clinical and clinical trial costs of $5.0 million in 2004, which were not incurred in prior years. Predix initiated a Phase I clinical trial for PRX-00023 in February 2004, which resulted in increased costs of $3.3 million relating to the manufacture of PRX-00023 for the clinical trial as well as significant costs to establish and manage the trial sites. This increase was partially offset by decreased personnel and facilities costs as the full impact of the 2003 restructuring was realized in 2004.

General and Administrative Expense

General and administrative expense was $3.0 million for the year ended December 31, 2004 compared to $5.8 million for the year ended December 31, 2003, a decrease of 48%. The decrease is primarily attributable to the cost savings realized from Predix s 2003 restructuring and a decrease in professional fees from $1.6 million in 2003 to $682,000 in 2004. As a result of Predix s 2003 restructuring, facilities costs including rent and depreciation on property and equipment decreased significantly in 2004 to $554,000 as compared to $2.6 million for 2003. In addition,

Predix incurred significant professional fees of $1.0 million

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in 2003 related to the acquisition. Also included in 2003 was a $664,000 non-cash compensation charge related to forgiveness of a promissory note associated with a stock transaction.

Restructuring

As a result of the acquisition of Predix Pharmaceuticals Ltd. and the shift in Predix s business focus, Predix consolidated facilities and reduced headcount which resulted in restructuring charges of approximately $5.4 million in 2003 and $77,000 in 2004. Included in the 2003 restructuring charge was $1.5 million for the future lease rental expense, net of sublease income, related to Predix s former Princeton, New Jersey office, $2.1 million relating to the write off of certain property and equipment and $1.8 million related to severance paid in 2003 for 57 terminated employees.

Investment Income, Net

Investment income, net was $147,000 for the year ended December 31, 2004 compared to $142,000 for the year ended December 31, 2003, an increase of 4%. The increase is primarily attributable to an increase in the average balance of cash and investments invested during 2004 as compared to 2003. Interest rate changes were not a significant component of the interest income increase.

Interest Expense

Interest expense was $37,000 for the year ended December 31, 2004 compared to $6,000 for the year ended December 31, 2003, an increase of 517%. The increase is primarily attributable to increased interest expense on equipment leases. Predix entered into two new lease agreements in 2004, one in the second quarter and one in the fourth quarter.

Years Ended December 31, 2003 and 2002

	Year Ended December 31,		
	2003	2002	Percentage Change
	(In thousands)		
Revenue	$ 1,068	$ 551	94%
Costs and expenses:			
Research and development	14,632	8,534	71
General and administrative	5,782	3,223	79
Restructuring	5,350		
Total costs and expenses	25,764	11,757	119
Loss from operations	(24,696)	(11,206)	120
Investment income, net	142	591	(76)
Interest expense	(6)	(5)	20
Loss on sale of equipment, and related contract		(879)	(100)
Net loss before income tax benefit	(24,560)	(11,499)	114
Income tax benefit		258	(100)
Net loss	$ (24,560)	$ (11,241)	118%

Business Focus

During 2002, Predix began evaluating the strategic direction of the company and determined that Predix should apply Predix s technology and capabilities more directly toward drug discovery. Accordingly, at that time, Predix

began pursuing a sale, merger or other business combination transaction to or with a suitable company engaged in drug discovery. Predix completed such a transaction in August 2003 with Predix s acquisition of all of the capital stock of Predix Pharmaceuticals Ltd.

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Revenue

Revenue was $1.1 million for the year ended December 31, 2003 compared to $551,000 for the year ended December 31, 2002, an increase of 94%. Revenue in both periods relates to outlicensing of Predix s software and services. The significant increase in revenue is due to an increase in the number of software licenses.

Research and Development Expense

Research and development expense was $14.6 million for the year ended December 31, 2003 compared to $8.5 million for the year ended December 31, 2002, an increase of 71%. The increase is primarily attributable to the shift in focus to drug discovery in 2003. As a result, Predix began incurring significant costs in 2003 of approximately $3.1 million for pre-clinical research and development outsourcing, manufacturing and the purchase of lab supplies and chemicals. In addition, Predix incurred approximately $2.4 million in 2003 related to outsourced research costs. During 2002, research and development expenses primarily consisted of personnel costs, outsourcing costs, facilities costs and depreciation expense.

General and Administrative Expense

General and administrative expense was $5.8 million for the year ended December 31, 2003 compared to $3.2 million for the year ended December 31, 2002, an increase of 79%. The increase is primarily attributable to increased professional fees and personnel costs. During 2003, Predix incurred significant professional fees of approximately $1.0 million relating to Predix s acquisition which resulted in a significant increase in legal and accounting fees in 2003 as compared to 2002. Also included in 2003 was a $664,000 one time, non-cash compensation charge relating to stock option transactions.

Investment Income, Net

Investment income, net was $142,000 for the year ended December 31, 2003 compared to $591,000 for the year ended December 31, 2002, a decrease of 76%. The decrease is primarily due to decreased interest income resulting from a significant decrease in the average cash balance on hand due to losses from operations. Interest rate changes were not a significant component of the interest income increase.

Interest Expense

Interest expense was $6,000 for the year ended December 31, 2003 compared to $5,000 for the year ended December 31, 2002, an increase of 20%. The increase is primarily due to increased interest expense on equipment leases as Predix entered into two new leases in 2003.

Loss on Sale of Equipment and Related Contract

During 2002, Predix recorded a loss on sale of equipment and related contract of $879,000. This amount represents the loss recognized from the sale of certain computer equipment during the period.

Income Tax Benefit

During 2002, Predix sold some of Predix s State of New Jersey net operating loss carryforwards and research and experimentation credit carryforwards. The proceeds received on this sale of $258,000 were recorded as an income tax benefit for the year ended December 31, 2002.

Liquidity and Capital Resources

Predix has financed its operations since inception through private placements of equity securities, proceeds from software sales and related services, payments received under its collaboration with CFFT, proceeds from equipment financing and capital leases and interest income. From inception through March 31, 2006, Predix has raised net proceeds of $112.4 million from private equity financings and

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$9.5 million from a private debt financing which closed on March 31, 2006. From inception through March 31, 2006, Predix has received $2.0 million in license fees and research funding and $1.6 million in proceeds from software sales and related services. To date, inflation has not had a material effect on Predix s business.

As of March 31, 2006, Predix s cash and cash equivalents were $7.9 million versus $29.4 million at March 31, 2005. The $21.5 million decrease from March 31, 2006 to March 31, 2005 is due primarily to a significant decrease in net cash provided by financing activities and an increase in cash used in operations. During the first quarter of 2005, Predix received $21.0 million in proceeds from the issuance of preferred stock versus $6.6 million in proceeds from convertible notes during the same period in 2005. The decrease in cash and cash equivalents is primarily due to the increased costs associated with having three drug candidates in the clinic during the first quarter of 2006 versus two during the same period in 2005 as well as a decrease in the funds raised. Cash used in operations increased from $5.0 million during the three months ended March 31, 2005 to $6.0 million in same period in 2006. In the first quarter of 2006, investing activities provided $1.5 million in cash versus $0.4 million being used in the same period in 2005. The difference is primarily due to a decrease in proceeds from the sale of investments. Cash provided by financing activities during the three months ended March 31, 2006 was $6.6 million versus $21.0 million in the same period in 2005.

As of December 31, 2005, cash and cash equivalents were $7.4 million compared to $13.8 million as of December 31, 2004. The $6.4 million decrease from 2004 to 2005 is due primarily to the significant increase in operations. The decrease in cash and cash equivalents is primarily due to the increased costs associated with having three drug candidates in the clinic in 2005 versus one in 2004. Cash used in operations increased from $18.9 million in 2004 to $27.1 million in 2005. In 2004, investing activities provided $3.6 million in cash versus $2.4 million being used in 2005. The difference is primarily due to a decrease in proceeds from the sale of investments. Cash provided by financing activities in 2005 was $21.7 million versus $21.8 million in 2004. In 2005 and 2004 Predix received $21.6 million and $21.9 million in net proceeds from the sales of preferred stock and warrants and $2.0 million and $3.7 million of proceeds from the sale of Predix s short-term investments, respectively. Net cash used in operations increased from $10.5 million for the year ended December 31, 2003 to $18.9 million for the year ended December 31, 2004, due to the funding of Predix s net loss. Net cash provided by investing activities decreased from $8.8 million for the year ended December 31, 2003 to $3.6 million for the year ended December 31, 2004, primarily due to a decrease in proceeds from the sales of investments. Net cash provided by financing activities increased significantly from $0.9 million for the year ended December 31, 2003 to $21.8 million in the year ended December 31, 2004, due to the $21.9 million in net proceeds from Predix s sale of Series C convertible preferred stock in the fourth quarter of 2004. Predix s cash and cash equivalents are highly liquid investments with a maturity of three months or less at date of purchase and consist of time deposits and investments in money market funds with commercial banks and financial institutions.

In January 2005, Predix completed a private equity funding round raising a total of $43.0 million and issuing 196,431,820 shares of Predix s Series C convertible preferred stock. Of the $43.0 million raised in this funding, $21.9 million was received during 2004 and the remaining $21.1 million was received in 2005. In March 2005, Predix entered into a three year research, development and commercialization agreement with CFFT. Under this agreement, Predix received an upfront payment of $2.0 million and can receive additional license fees, cost reimbursements and milestone payments. At December 31, 2005, cash and cash equivalents were $7.4 million.

Contractual Obligations

Predix s contractual obligations relate to rent on facilities leases for Predix s Lexington, Massachusetts facility, Ramat Gan, Israel facility and the property abandoned in Princeton, New Jersey, equipment notes and capital leases on office equipment. The following table summarizes as of December 31, 2005, Predix s

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contractual obligations for equipment notes, operating and capital lease payments for office and laboratory equipment.

	Payments Due in					
	2006	2007	2008	2009	2010	Thereafter
	(In thousands)					
Operating leases	$ 1,398	$ 1,497	$ 1,602	$ 1,602	$ 1,627	$ 1,707
Capital leases	105	51	38	32	7	

Funding Requirements

Predix expects to continue to incur losses from operations for at least the next several years. In particular, as described above, Predix expects to incur increasing research and development expenses and general and administrative expenses in the future.

Predix s existing cash and cash equivalents are not sufficient to enable Predix to fund Predix s operating expenses, obligations under Predix s equipment debt financing and capital expenditure requirements beyond July 2006. On March 31, 2006, Predix entered into a bridge financing agreement with certain of its shareholders. In connection with this financing, Predix issued notes totaling $9.5 million. A total of $6.6 million of the proceeds from this note issuance had been received on March 31, 2006. The remaining $2.9 million was received in the second quarter of 2006. The notes bear interest at 10% and are payable in one year. In connection with these notes, Predix issued warrants to purchase an aggregate of 201,709 shares of Predix common stock to the note holders on a pro rata basis. If the merger closes before August 1, 2006, the warrants convert to 250,000 shares of EPIX common stock on a pro rata basis and the principal and accrued interest become payable one month from the closing date of the merger. In the event the merger does not close, the interest payable upon the notes increases from 10% to 15% and the notes become convertible into Predix stock and Predix must issue additional warrants to the note holders to increase the amount of warrants issued to such shareholders to equal 20% of the respective amounts owed under the notes. Prior to the closing of the merger, Predix expects to amend the notes and warrants to extend the August 1, 2006 conversion date to August 31, 2006. The cash received from this debt financing will enable Predix to continuing operating through July 31, 2006. In the event the proposed acquisition by EPIX Pharmaceuticals, Inc. does not close before this time or at all, Predix will need to raise additional funding to continue operating. Predix s future capital requirements will depend on many factors, including:

- the scope and results of Predix s research, pre-clinical and clinical development activities;
- the timing of, and the costs involved in, seeking regulatory approvals;
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other patent-related costs, including litigation costs and the results of such litigation;
- the extent to which Predix acquires or invest in businesses, products and technologies; and
- Predix s ability to establish and maintain additional collaborations, and the financial terms associated with such collaborations.

Predix does not anticipate that Predix will generate product revenue for at least the next several years, if at all. In the absence of additional funding, Predix expects Predix s continuing operating losses to result in increases in Predix s cash used in operations over at least the next several quarters and years. To the extent Predix s capital resources are insufficient to meet future capital requirements, Predix will need to finance future cash needs through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. Except for funding by CFFT for research and development activities relating to the two programs covered by the agreement, Predix does not currently have any commitments for future external funding.

Additional equity or debt financing, or corporate collaboration and licensing arrangements, may not be available on acceptable terms, if at all. If adequate funds are not available, Predix may be required to delay, reduce the scope of or eliminate Predix s research and development programs, reduce Predix s

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planned commercialization efforts, or obtain funds through arrangements with collaborators or others that may require Predix to relinquish rights to certain drug candidates that Predix might otherwise seek to develop or commercialize independently. Additionally, any future equity funding may dilute the ownership of Predix s equity investors.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which is an interpretation of Accounting Research Bulletin No. 51, *Financial Statements*, or FIN 46. FIN 46 requires that if an entity has a controlling interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the financial statements of the entity. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 (as revised) must be applied to all variable interests held no later than the first interim or annual period ending after March 15, 2004. Predix does not own equity or other variable interests in other companies. Accordingly, the adoption of FIN 46 did not have an effect on Predix s consolidated financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, or SFAS 150. SFAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. SFAS 150 is effective for all financial instruments entered into or modified after.

May 31, 2003 and otherwise is effective beginning with the first interim period after June 15, 2003. Predix has not issued any financial instruments which would be affected by the adoption of SFAS 150. Accordingly, the adoption of SFAS 150 did not have an effect on Predix s financial statements.

Quantitative and Qualitative Disclosure about Market Risks

Predix s exposure to market risk is currently confined to Predix s cash and cash equivalents that have maturities of less than one year. Predix currently does not hedge interest rate exposure. Predix has not used derivative financial instruments for speculation or trading purposes. Because of the short-term maturities of Predix s cash and cash equivalents, Predix does not believe that an increase in market rates would have any significant impact on the realized value of Predix s investments.

Predix has operated primarily in the United States and Israel and has received payments from Predix s collaborators and subsidiaries in U.S. dollars. Predix s Israeli subsidiary conducts its business using New Israeli Shekels. However, Predix does not believe Predix has any material exposure to foreign currency rate fluctuations.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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PREDIX PRINCIPAL STOCKHOLDERS

The following table and the related notes present information on the beneficial ownership of shares of Predix common stock and preferred stock, including Series C preferred stock, as of June 28, 2006 by each director and executive officer of Predix and by each person or group who is known to the management of Predix to be the beneficial owner of more than 5% of the Predix common stock outstanding as of June 28, 2006. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable and the voting agreements entered into by certain directors of Predix (including affiliated entities) with EPIX, Predix believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.

The number of shares beneficially owned below assumes the conversion of all 273,203,492 shares of Predix preferred stock into 15,177,898 shares of common stock. Applicable percentages are based on 10,912,838 shares of Predix Series C preferred stock (on an as-converted to Predix common stock basis), 15,177,898 shares of Predix preferred stock (on an as-converted to Predix common stock basis)and 16,275,255 shares of Predix common stock and preferred stock outstanding on June 28, 2006, adjusted as required by rules promulgated by the Securities and Exchange Commission. In addition, shares of common stock that may be acquired by an individual or group within 60 days of June 28, 2006, pursuant to the exercise of options or warrants, are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Unless otherwise indicated, the address for each director and executive officer listed is: c/o Predix Pharmaceuticals Holdings, Inc., 4 Maguire Road, Lexington, Massachusetts 02421.

	Number of Shares Beneficially Owned(1)	Percent of Series C Preferred Stock	Percent of Preferred Stock	Percent of Preferred Stock and Common Stock(2)
5% Stockholders:				
OrbiMed Entities(3) 767 Third Avenue, 30th Floor New York, NY 10017-2023	3,464,131	11.6%	22.2%	21.2%
Yozma Entities(4) Ramat Aviv Tower, 11th Floor 40 Einstein Street Tel Aviv, 69102 Israel	1,627,887	5.5	10.7	10.0
PA International Limited(5) 123 Buckingham Palace Road London SW1 W9SR United Kingdom	1,028,120	8.2	5.9	6.3
SR One Limited(6) Four Tower Bridge 200 Barr Harbor Drive, Suite 250 West Conshohocken, PA 19428-2977	1,521,442	11.6	9.9	9.3
Forward Ventures V, L.P.(7)	1,386,556	12.7	9.1	8.5

9350 Towne Centre Drive, Suite 200 San Diego, CA 92121				
Boston Millennia Entities(8) 30 Rowes Wharf, Suite 500 Boston, MA 02110	1,294,658	11.6	8.3	7.9
Astellas Venture Capital LLC (formerly known as Yamanouchi Venture Capital, LLC)(9) 2180 San Hill Road, Suite 460 Menlo Park, CA 94025	882,354	8.1	5.8	5.4

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	Number of Shares Beneficially Owned(1)	Percent of Series C Preferred Stock	Percent of Preferred Stock	Percent of Preferred Stock and Common Stock(2)
CMEA Entities(10) One Embarcadero Center, Suite 3250 San Francisco, CA 94111	1,168,607	10.4	7.5	7.2
Directors and Named Executive Officers				
Michael G. Kauffman, M.D., Ph.D.(11)	509,743	*	*	3.1
Chen Schor, CPA(12)	173,875	*	*	1.1
Kimberlee C. Drapkin, CPA(13)	49,522	*	*	*
Silvia Noiman, Ph.D.(14)	218,063	*	*	1.3
Oren Becker, Ph.D. (15)	201,178	*	*	1.2
Frederick Frank(16)	40,830	*	*	*
Julian Adams, Ph.D.(17)	5,972	*	*	*
David Collier, M.D.(18)	1,170,497	*	*	7.2
Yigal Erlich(19)	1,630,054	5.5	10.7	10.0
Patrick J. Fortune, Ph.D.(20)	1,296,548	11.6	8.3	7.9
Ted Love, M.D.(21)	5,972	*	*	*
Joel Martin, Ph.D.(22)	1,388,446	12.7	9.1	8.5
Jonathan Silverstein(23)	3,466,437	11.6	22.2	21.2
Ian F. Smith, CPA, ACA(24)	5,555	*	*	*
Executive officers and directors as a group (15 persons)(25)	10,208,538	51.8	58	58.6

* Less than 1%

(1) Includes shares of common stock issuable pursuant to options and warrants exercisable within 60 days of June 28, 2006.

(2) Predix preferred stock is reported on an as-converted to Predix common stock basis.

(3) Includes 50,091 shares held by OrbiMed Associates LLC; 346,463 shares held by EatonVance Worldwide Health Sciences Portfolio; 207,877 shares held by Hare and Company FAO: Finsbury Worldwide Pharma; 2,057,481 shares held by Caduceus Private Investment, L.P.; and 700,974 shares held by UBS PW Juniper Crossover Fund, LLC. Also includes 2,758 shares of common stock issuable to Hare and Company FAO: Finsbury Worldwide Pharma upon the exercise of outstanding warrants; 1,757 shares issuable to OrbiMed Associates LLC upon the exercise of outstanding warrants; 72,149 shares issuable to Caduceus Private Investment, L.P. upon the exercise of outstanding warrants; and 24,581 shares issuable to UBS PW Juniper Crossover Fund, LLC. upon the exercise of outstanding warrants. Samuel D. Isaly, a natural person, owns a controlling interest in OrbiMed Advisors LLC and OrbiMed Capital LLC, which have investment management discretion over the shares held by OrbiMed Associates LLC, EatonVance Worldwide Health Sciences Portfolio, Hare and Company FAO: Finsbury Worldwide Pharma, Caduceus Private Investment, L.P. and UBS PW

Juniper Crossover Fund, LLC. Mr. Isaly disclaims beneficial ownership of such shares except to the extent of his pecuniary interest, if any.

(4) Consists of 336,984 shares held by Yozma II (Israel), L.P.; 410,137 shares of common stock owned of record by Yozma Venture Capital Ltd.; 574,412 shares held by YVC-Yozma Management & Investments Ltd., as trustee for Yozma (BVI) L.P.; and 306,354 shares held by PCM Venture Capital L.P. Voting and/or dispositive decisions with respect to the shares held by Yozma II (Israel), L.P., YVC-Yozma Management & Investments Ltd., as trustee for Yozma (BVI) L.P., and PCM Venture Capital L.P. are made by Mr. Erlich, managing partner and one of our directors, Boaz Goldschmidt, general partner, and directors Udi Angel, Yoav Doppelt, Nir Bronstein and Eran Gersht. Voting and/or dispositive decisions with respect to the shares held by Yozma Venture Capital Ltd. are made by its directors, Mr. Angel and Mr. Doppelt. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any.

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(5) Includes 1,016,231 shares held by PA International Limited. Also includes 11,889 shares of common stock issuable to PA International Limited upon the exercise of outstanding warrants. David Cooke, Chris Garrod and Jon Moynihan are the directors of PA International Limited and share voting and/or dispositive power over the shares held by PA International Limited. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any.

(6) Includes 1,501,522 shares held by SR One Limited. Also includes 19,920 shares of common stock issuable to SR One Limited upon the exercise of outstanding warrants. Voting and/or dispositive decisions with respect to the shares held by SR One Limited are made by Adrian G. Rawcliffe, President, Philip L. Smith, Vice President, and Kent Gossett, Investment Manager. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any.

(7) Voting and/or dispositive decisions with respect to the shares held by Forward Ventures V, L.P. are made by its members, Joel Martin, one of our directors, Stuart J.M. Collinson, Standish M. Fleming, Ivor Royston and Maria C. Walker. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any.

(8) Includes 1,046,887 shares held by Boston Millennia Partners II Limited Partnership; 149,077 shares held by Boston Millennia Partners GmbH & Co. KG; 50,148 shares held by Boston Millennia Partners II-A Limited Partnership; 9,413 shares held by Strategic Advisors Fund Limited Partnership; and 4,979 shares held by Boston Millennia Associates II Partnership. Also includes 28,366 shares of common stock issuable to Boston Millennia Partners II Limited Partnership upon the exercise of outstanding warrants; 4,039 shares issuable to Boston Millennia Partners GmbH & Co. KG upon the exercise of outstanding warrants; 1,359 shares issuable to Boston Millennia Partners II-A Limited Partnership upon the exercise of outstanding warrants; 254 shares issuable to Strategic Advisors Fund Limited Partnership upon the exercise of outstanding warrants; and 135 shares issuable to Boston Millennia Associates II Partnership upon the exercise of outstanding warrants. A. Dana Callow, Robert S. Sherman and Martin J. Hernon are general partners of Boston Millennia Partners, as sponsor of these investment funds. Messrs. Callow, Sherman and Hernon may be deemed to have shared voting and dispositive power with respect to these shares. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any.

(9) Voting and/or dispositive decisions with respect to the shares held by Astellas Venture Capital LLC are made by Yoshitaka Yoneyama, President and Chief Executive Officer, Kazumasa Saito, Chief Financial Officer and Treasurer, and Satoshi Nozaki, Secretary. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any.

(10) Includes 375,835 shares held by CMEA Ventures Life Sciences 2000, L.P.; 22,599 shares held by CMEA Ventures Life Sciences 2000, Civil Law Partnership; 719,373 shares held by CMEA Ventures VI, L.P.; and 16,646 shares held by CMEA Ventures VI, GmbH & Co. K.G. Also includes 11,317 shares of common stock issuable to CMEA Ventures Life Sciences 2000, L.P. upon the exercise of outstanding warrants; 678 shares issuable to CMEA Ventures Life Sciences 2000, Civil Law Partnership upon the exercise of outstanding warrants; 21,656 shares issuable to CMEA Ventures VI, L.P. upon the exercise of outstanding warrants; and 503 shares issuable to CMEA Ventures VI, GmbH & Co. K.G. upon the exercise of outstanding warrants. CMEA Ventures LS Management 2000 L.P. is the general partner of CMEA Ventures Life Sciences 2000, L.P. and CMEA Ventures Life Sciences 2000, Civil Law Partnership. David Collier, one of our directors, Thomas Baruch, Karl Handelsman and Gordon Hull are the general partners of CMEA Ventures LS Management 2000 L.P. and share voting and/or dispositive power over the shares held by CMEA Ventures Life Sciences 2000, L.P. and CMEA Ventures Life Sciences 2000, Civil Law Partnership. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any. CMEA Ventures VI Management L.P. is the general partner of CMEA Ventures VI, L.P. and CMEA Ventures VI, GmbH & Co. K.G. Dr. Collier,

Mr. Baruch, Mr. Handelsman, Mr. Hull, Faysal Sohail and James Watson are the general partners of CMEA Ventures VI Management L.P. and share voting and/or dispositive power over the shares held by

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CMEA Ventures VI, L.P. and CMEA Ventures VI, GmbH & Co. K.G. Each disclaims beneficial ownership of such shares except to the extent of their pecuniary interest, if any.

(11) Includes 360,603 shares issuable to Dr. Kauffman upon exercise of stock options.

(12) Includes 90,483 shares issuable to Mr. Schor upon exercise of stock options.

(13) Consists of 49,522 shares issuable to Ms. Drapkin upon exercise of stock options.

(14) Includes 213,606 shares issuable to Dr. Noiman upon exercise of stock options.

(15) Includes 196,721 shares issuable to Dr. Becker upon exercise of stock options.

(16) Includes 5,448 shares issuable to Mr. Frank upon exercise of stock options.

(17) Consists of 5,972 shares issuable to Dr. Adams upon exercise of stock options.

(18) Includes of 1,890 shares issuable to Dr. Collier upon exercise of stock options. Also includes the shares set forth in footnote (10) above.

(19) Includes 2,167 shares issuable to Mr. Erlich upon exercise of stock options. Also includes the shares set forth in footnote (4) above.

(20) Includes 1,890 shares issuable to Dr. Fortune upon exercise of stock options. Also includes the shares set forth in footnote (8) above. Dr. Fortune, one of Predix s directors, is a partner of Boston Millennia Partners, the sponsor of these investment funds. Dr. Fortune disclaims beneficial ownership of the shares held by each of the Boston Millennia funds, except to the extent of his pecuniary interest, if any.

(21) Includes 5,556 shares issuable to Dr. Love upon exercise of stock options.

(22) Includes 1,890 shares issuable to Dr. Martin upon exercise of stock options. Also includes the shares set forth in footnote (7) above.

(23) Includes 2,306 shares issuable to Mr. Silverstein upon exercise of stock options. Also includes the shares set forth in footnote (3) above. As a general partner of OrbiMed Advisors LLC and OrbiMed Capital LLC, Mr. Silverstein may be deemed to have beneficial ownership of such shares. Mr. Silverstein disclaims beneficial ownership of such shares except to the extent of his pecuniary interest, if any.

(24) Consists of 5,555 shares issuable to Mr. Smith upon exercise of stock options.

(25) Consists of shares set forth in footnotes 11 through 24, and 45,846 shares issuable to one executive officer not named in the table upon exercise of stock options.

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DESCRIPTION OF EPIX CAPITAL STOCK

General

EPIX s authorized capital stock consists of 40,000,000 shares of common stock and 1,000,000 shares of preferred stock, par value $0.01 per share. As of June 28, 2006, there were 23,284,810 shares of EPIX common stock outstanding and no shares of preferred stock outstanding. In order to consummate the merger, EPIX is seeking shareholder approval pursuant to this joint proxy statement/ prospectus to amend its restated certificate of incorporation to increase the authorized EPIX common stock from 40,000,000 shares to 100,000,000 shares.

Common Stock

The holders of EPIX common stock are entitled to one vote for each share held of record on all matters voted upon by EPIX s stockholders and may not cumulate votes. Subject to the rights of holders of any future series of undesignated preferred stock which may be designated, each share of the outstanding common stock is entitled to participate ratably in any distribution of net assets made to the stockholders in the liquidation, dissolution or winding up of EPIX and is entitled to participate equally in dividends if and when declared by the EPIX board of directors. There are no redemption, sinking fund, conversion or preemptive rights with respect to shares of EPIX common stock. All shares of EPIX common stock have equal rights and preferences.

Preferred Stock

The EPIX board of directors has the authority, without further stockholder approval, to issue 1,000,000 shares of preferred stock where defined in one or more series and to fix the relative rights, preferences, privileges, qualifications, limitations and restrictions of such preferred stock, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series. The issuance of preferred stock, while potentially providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control of EPIX, which may discourage bids for EPIX common stock at a premium over the market price of the common stock and may adversely affect the market price of, and the voting and other rights of the holders of, EPIX common stock. EPIX has no present plans to issue any shares of preferred stock.

Transfer Agent and Registrar

The transfer agent and registrar for EPIX common stock is Computershare, with offices at 250 Royall Street, Canton, Massachusetts, 02021.

Stock Market Listing

EPIX common stock is currently listed on The NASDAQ Global Market under the symbol EPIX. To enable EPIX to maintain its eligibility for trading its common stock on The NASDAQ Global Market after completion of the merger, EPIX is seeking stockholder approval pursuant to this joint proxy statement/prospectus to authorize the EPIX board of directors to amend EPIX s restated certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of EPIX common stock, at a ratio to be determined by the EPIX board of directors.

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COMPARISON OF RIGHTS OF HOLDERS OF EPIX COMMON STOCK AND PREDIX COMMON STOCK

EPIX and Predix are both Delaware corporations. The rights of stockholders of each company are generally governed by the General Corporation Law of the State of Delaware, or DGCL, and each company s respective certificates of incorporation and by-laws. Upon completion of the merger, Predix stockholders will become EPIX stockholders and EPIX s restated certificate of incorporation and by-laws of EPIX will govern the rights of former Predix stockholders.

The following description summarizes the material differences between the rights of EPIX stockholders and Predix stockholders, but does not purport to be a complete statement of all those differences, or a complete description of the specific provisions referred to in this summary. Stockholders should carefully read the relevant provisions of the DGCL and EPIX s and Predix s respective certificates of incorporation and by-laws. For more information on how to obtain these documents, see Additional Information Where You Can Find Additional Information.

Capitalization

EPIX. The authorized capital stock of EPIX consists of 40,000,000 shares of common stock, $0.01 par value per share, and 1,000,000 shares of preferred stock, $0.01 par value per share. In order to consummate the merger, EPIX is seeking stockholder approval pursuant to this joint proxy statement/ prospectus to amend its restated certificate of incorporation to increase the authorized EPIX common stock from 40,000,000 shares to 100,000,000 shares.

EPIX Common Stock. As of June 28, 2006 there were approximately 23,284,810 shares of EPIX common stock outstanding and held of record by approximately 76 persons. EPIX common stock is listed on The NASDAQ Global Market under the symbol EPIX. Except as otherwise provided in any resolution providing for the issue of any series of preferred stock, holders of EPIX common stock have exclusive voting rights for the election of directors and for all other purposes. Holders of EPIX common stock are entitled to one vote per share on all matters to be voted upon by EPIX stockholders. Neither the EPIX restated certificate of incorporation nor the EPIX by-laws authorize cumulative voting. The holders of EPIX common stock are entitled to receive dividends, if any, as may be declared from time to time by the EPIX board of directors out of funds legally available for the payment of dividends, subject to the rights of any series of preferred stock. In the event of a liquidation, dissolution or winding up of EPIX, the holders of EPIX common stock are entitled to share ratably in all assets remaining after payment of the preferential amounts, if any, to which the holders of EPIX preferred stock, if any, are entitled. The EPIX common stock has no preemptive, conversion or other subscription rights. There are no redemption or sinking fund provisions applicable to the EPIX common stock. All outstanding shares of EPIX common stock are fully paid and non-assessable, and the shares of EPIX common stock to be outstanding upon completion of the merger will be fully paid and non-assessable. Computershare is the Transfer Agent and Registrar for the shares of EPIX common stock. To enable EPIX to maintain its eligibility for trading its common stock on The NASDAQ Global Market after completion of the merger, EPIX is seeking stockholder approval pursuant to this joint proxy statement/prospectus to authorize the EPIX board of directors to amend EPIX s restated certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of EPIX common stock, at a ratio to be determined by the EPIX board of directors.

EPIX Preferred Stock. The EPIX board of directors may issue up to 1,000,000 shares of EPIX preferred stock in one or more series and may, subject to the DGCL:

fix its rights, preferences and restrictions;

fix the number of shares and designation of any series;

provide voting rights to the shares of any series in addition to those provided by law;

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provide conversion privileges to the shares of any series and the terms and conditions of such conversion; and

determine the rights of the shares of any series in the event of voluntary or involuntary liquidation, dissolution or winding up of EPIX, and the relative rights of priority, if any, of payment of shares of any series.

At the date of this prospectus, no shares of EPIX preferred stock were outstanding. Although EPIX presently does not intend to do so, the EPIX board of directors may issue EPIX preferred stock with voting, liquidation, dividend, conversion and such other rights which could negatively affect the voting power or other rights of the EPIX common stockholders without the approval of the EPIX common stockholders. Any issuance of EPIX preferred stock may delay or prevent a change in control of EPIX.

Predix. The authorized capital stock of Predix consists of 338,085,813 shares of common stock, $0.01 par value per share, and 275,298,740 shares of preferred stock, $0.01 par value per share, which consists of 76,771,672 authorized shares of Series AB preferred stock, par value $0.01 per share, and 198,527,068 authorized shares of Series C preferred stock, par value $0.01 per share. All shares of Predix preferred stock are convertible into common stock on a 18-for-1 basis.

Predix Common Stock. As of June 28, 2006, there were approximately 1,097,357 shares of Predix common stock outstanding that were held of record by approximately 120 persons. Holders of Predix common stock are entitled to one vote per share on all matters to be voted upon by Predix stockholders. Predix may not declare or pay any dividend on the common stock unless and until the holders of Series C preferred stock and Series AB preferred stock then outstanding, have first received or simultaneously receive a dividend on each outstanding share calculated in accordance with the Predix restated certificate of incorporation, as amended. In the event of a liquidation, dissolution or winding up of Predix, the holders of Predix common stock are entitled to share ratably in all assets remaining after payment of liabilities of Predix and of the preferential amounts, if any, to which the holders of Predix preferred stock are entitled. The Predix common stock has no preemptive, conversion or other subscription rights. All outstanding shares of Predix common stock are fully paid and non-assessable.

Predix Preferred Stock. The holders of shares of Series C preferred stock are entitled to receive non-cumulative dividends at an annual rate of 8% of the purchase price of one share of Series C preferred stock per annum. Upon the occurrence of a liquidation event, each holder of Series C preferred stock is entitled to be paid out of the assets available for distribution before any payment is made to the holders of shares of Series AB preferred stock and any other class or series of capital stock that is not senior to the Series C preferred stock. Second, each holder of Series AB preferred stock is entitled to be paid out of the assets available for distribution before any payment is made to the holders of any class or series of capital stock that is not senior to the Series AB preferred stock. The remaining assets of Predix, if any, are distributed pro rata among all holders of capital stock; provided that the holders of Predix preferred stock shall not receive in the aggregate an amount equal to three times the original purchase price of such shares of Predix preferred stock.

Subject to the approval of the holders of at least 60% of the outstanding shares of Predix preferred stock, the Predix board of directors may, subject to the DGCL:

alter or change the rights, preferences or privileges of any series of Predix preferred stock;

authorize, create or designate any shares of capital stock or other securities of Predix (including securities convertible into or exercisable for any such security) with preference to or on parity with the Series C preferred stock with respect to dividends, liquidation, redemption, voting or the like;

increase the authorized number of shares of Predix preferred stock, Predix common stock or any series thereof; and

authorize or effect any merger or consolidation of Predix with or into any other company or entity, or any sale, license as licensor, lease as lessor, or other transfer or disposal of all or substantially all of the assets of Predix.

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Subject to the approval of the holders of at least 66^2/3 % of the Series C preferred stock, the Predix board of directors may, subject to the DGCL:

alter or change the rights, preferences or privileges of any series of Predix preferred stock;

authorize, create or designate any shares of capital stock or other securities of Predix (including securities convertible into or exercisable for any such security) with preference to or on parity with the Series C preferred stock with respect to dividends, liquidation, redemption, voting or the like;

increase or decrease the authorized number of shares of Predix preferred stock, Predix common stock or any series thereof;

increase or decrease the authorized size of the Predix board of directors in excess of, or to less than, ten members;

authorize or effect any merger or consolidation of Predix with or into another company or entity, or any sale, license as licensor, lease as lessor, spin off, sale of voting control, partnering transaction or other transfer or disposal of all or a substantial portion of Predix s assets outside of the ordinary course of business;

effect any recapitalization or reorganization of any class of outstanding capital stock of Predix;

authorize or effect any transaction or series of related transactions resulting in a liquidation event; and

purchase, lease or otherwise acquire all or substantially all of the assets or capital stock of another entity (whether by merger, consolidation, asset purchase or otherwise).

As of the date of this prospectus, 273,203,492 shares of Predix preferred stock were outstanding that were held of record by approximately 63 persons. Although Predix presently does not intend to do so, the Predix board of directors may issue Predix preferred stock with voting, liquidation, dividend, conversion and such other rights which could negatively affect the voting power or other rights of the Predix common stockholders without the approval of the Predix common stockholders.

Number, Election, Vacancy and Removal of Directors

Delaware General Corporation Law. Under the DGCL, the board of directors must have at least one director. A majority of the directors in office can fill any vacancy or newly created directorship. A director may be removed with or without cause by a majority of the shares entitled to vote at an election of the directors. However, if the board of directors is divided into classes, unless the certificate of incorporation provides otherwise, a director may only be removed for cause. The board of directors may fill any vacancy created for any reason.

EPIX. The EPIX board of directors currently has five members. The EPIX restated certificate of incorporation and by-laws provide that the number of directors shall be fixed from time to time by resolution adopted by the vote of a majority of the directors then in office, but shall in no event be less than three. The EPIX restated certificate of incorporation provides that that EPIX board of directors shall be divided into three nearly equal classes, with each class terms expiring on a staggered basis. Vacancies and newly created directorships may be filled by a majority of the directors then in office, though less than a quorum. Directors may be removed for cause by the affirmative vote of the holders of at least a majority of the stock entitled to vote at a special meeting of the stockholders called at least in part for that purpose; such method being the exclusive method for the removal of directors.

Predix. The Predix board of directors currently has ten members. In order to increase or decrease the number of directors to a number greater than or less than ten, Predix must obtain the approval of the holders of at least 66^2/3 % of the Series C preferred stock. The Predix by-laws provide that the Predix board of directors shall consist of not less than one director. The number of directors may be declared at any time either by the shareholders or by a majority of the directors then in office, but may only be decreased to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one

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or more directors. Directors may be removed at any time for cause by the affirmative vote of a majority of the combined voting power of the then outstanding shares of Predix capital stock entitled to vote in the election of directors, voting together as a single class, except that directors elected by the holders of a particular class or series of stock may be removed without cause only by the vote of the holders of a majority of the outstanding shares of such class or series.

Amendments to Certificate of Incorporation

Delaware General Corporation Law. Under the DGCL, an amendment to a corporation s certificate of incorporation requires approval by both the board of directors and a majority of the shares entitled to vote, unless a different proportion is provided for in the certificate of incorporation. If the amendment increases or decreases the aggregate number of authorized shares of a class, then the outstanding shares of such class shall be entitled to vote on the amendment, whether or not entitled to vote thereon by the certificate of incorporation. If the corporation s stock is divided into classes, then a majority of each class entitled to vote on the amendment as a class must approve the amendment, unless a different proportion is provided by the certificate of incorporation.

EPIX. The EPIX restated certificate of incorporation may be amended or repealed as permitted or prescribed by applicable law, with all rights conferred upon EPIX stockholders subject to such reservation. The EPIX restated certificate of incorporation requires the affirmative vote of holders of $66^2/3$ % of the voting power of the shares of all classes of EPIX stock entitled to vote for the election of directors, considered for these purposes as one class of stock, with respect to amending, revising or revoking certain of its provisions. Specifically, such vote is required to amend, revise or revoke the following provisions of the EPIX restated certificate of incorporation:

Article Sixth, which sets forth the election and removal procedures of the EPIX board of directors;

Article Eleventh, which sets forth the stockholder voting requirements for certain actions to be taken by EPIX; and

Article Twelfth, which prohibits EPIX stockholder action to be taken by written consent.

In addition, any amendment or repeal of Article Ninth of the EPIX restated certificate of incorporation, which limits the liability of directors, will not deprive a director of the benefits of Article Ninth with respect to any act or omission occurring prior to the date of such amendment or repeal.

Predix. Subject to certain voting rights of the Predix preferred stock which may not be amended, repealed or modified without the requisite approval of the holders of Predix preferred stock, the Predix restated certificate of incorporation, as amended, may be amended or repealed as permitted or prescribed by applicable law. In addition, any amendment, repeal or modification of or the adoption of any provision inconsistent with Article VII of the Predix restated certificate of incorporation, as amended, shall not adversely affect or diminish the rights of any indemnitee to indemnification with respect to any action, suit or proceeding arising out of or relating to any actions or facts that occur prior to such amendment, modification or repeal.

Amendments to By-laws

EPIX. The EPIX by-laws may be altered, amended or repealed or new by-laws may be adopted by the affirmative vote of the holders of a majority of the shares of EPIX capital stock issued and outstanding and entitled to vote at any regular meeting of stockholders, or at any special meeting of stockholders provided that notice of such alteration, amendment, repeal or adoption of new by-laws shall have been stated in the notice of such meeting; or by the affirmative vote of a majority of the directors present at any regular or special meeting of the EPIX board of directors at which a quorum is present.

Predix. The Predix by-laws may be altered, amended or repealed and new by-laws adopted by the stockholders at any annual or special stockholder meeting by a majority of the combined voting power of the outstanding shares of Predix capital stock entitled to vote at such meeting, voting together as a single

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class, or by the approval of a majority of the Predix board of directors present at any regular or special meeting of the Predix board of directors at which a quorum is present.

Stockholder Action

EPIX. The affirmative vote of holders of 66^{2}/3 % of the voting power of the shares of all classes of EPIX stock entitled to vote for the election of directors, considered for these purposes as one class of stock is required (a) to amend, revise or revoke those articles of the EPIX restated certificate of incorporation noted above under Amendments to Certificate of Incorporation or (b) for EPIX to enter certain transactions with any person, firm, corporation or other entity, other than a subsidiary of EPIX, which is the beneficial owner of 5% or more of the shares of stock of EPIX entitled to vote in the election of directors, which is referred to as an Other Corporation. Otherwise, the holders of a majority in interest of all stock issued and outstanding and entitled to vote at any meeting of the stockholders shall constitute a quorum and a majority of the stock represented thereat is required for EPIX stockholders to approve any action brought before them. Any election by stockholders shall be determined by a plurality of the vote cast by the stockholders entitled to vote at the election. The EPIX restated certificate of incorporation provides that any action required or permitted to be taken by stockholders at any annual or special meeting may not be effected by written consent.

Predix. The vote of a majority of the shares present and entitled to vote at a duly called and held meeting is the act of the Predix stockholders. The Predix by-laws provide that any action required or permitted to be taken by the stockholders at a duly called annual or special meeting may be affected by the written consent of the holders of outstanding stock having not less than the minimum number of votes that would be required to authorize or take such action at a meeting at which all shares entitled to vote on such action were present and voted.

Notice of Certain Stockholder Actions

EPIX. The EPIX by-laws state that a stockholder may only bring business before an annual stockholder meeting, including nomination of a director for the EPIX board of directors at an annual or special stockholder meeting, if the stockholder gives written notice of the business to the Chairman of the EPIX board of directors or EPIX s President, Secretary or Treasurer not less than 50 days nor more than 75 days prior to the meeting or, if less than 65 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, stockholder notice, to be timely, must be received no later than the close of business on the 15th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made.

Predix. The Predix by-laws do not have an advance notice requirement for a Predix stockholder to properly bring business before a stockholder meeting.

Special Stockholder Meetings

Delaware General Corporation Law. Under the DGCL, a special meeting of a corporation s stockholders may be called by the board of directors or by any other person authorized by the corporation s certificate of incorporation or by-laws. All stockholders of record entitled to vote must receive notice of all stockholder meetings not less than ten, nor more than 60, days before the date of the stockholder meeting.

EPIX. The EPIX by-laws provide that the President or the EPIX board of directors may call special meetings of the stockholders at any time.

Predix. The Predix by-laws provide that only the Predix board of directors, the Chairman of the Predix board of directors or Predix s President can call a special meeting of the Predix stockholders. No

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business may be transacted at a special meeting of the stockholders other than that stated in the notice of the meeting.

Limitation of Personal Liability of Directors and Indemnification

Delaware General Corporation Law. Under the DGCL, a corporation may include a provision in its certificate of incorporation eliminating or limiting the personal liability of a director to the corporation or its stockholders for certain monetary damages resulting from breaches of fiduciary duties. Specifically, the corporation may indemnify any director, officer, employee or agent of the corporation for expenses, monetary damages, fines and settlement amounts to the extent the person:

acted in good faith;

acted in a manner he or she believed to be in the best interests of the corporation; and

with respect to any criminal action, had no reasonable cause to believe the conduct was unlawful.

However, no provision can eliminate or limit director liability for any:

breach of his or her duty of loyalty to the corporation or its stockholders;

act or omission not in good faith or involving intentional misconduct or a knowing violation of the law;

violation of Section 174 of the DGCL regarding unlawful payment of dividends or unlawful stock purchases or redemptions;

transaction from which the director received any improper personal benefit; or

act or omission that took place before the date of adoption of the provision in the certificate of incorporation eliminating or limiting the liability of a director for breaches of fiduciary duties.

Indemnification is also not permitted if the person is held liable to the corporation or its stockholders, except to the extent that an appropriate court concludes that the person is fairly and reasonably entitled to indemnification for those expenses that the court deems proper.

EPIX. The EPIX restated certificate of incorporation provides that directors shall not be personally liable for monetary damages for breach of fiduciary duty, except to the extent such elimination or limitation thereof is not permitted under the DGCL as in effect when such liability is determined. Any amendment or repeal of this provision in the EPIX restated certificate of incorporation will not deprive a director of its benefits with respect to any act or omission occurring prior to such amendment or repeal. In addition, the EPIX restated certificate of incorporation and by-laws provide that, to the fullest extent permitted by the DGCL, as amended from time to time, EPIX shall indemnify its directors and officers and those who serve at the request of EPIX as a director, officer or trustee with another corporation, partnership, joint venture, trust or other enterprise. This right to indemnification may include advancement of expenses and is not exclusive of any other right the indemnified party may have. The EPIX restated certificate of incorporation authorizes EPIX to grant indemnification rights to other employees, agents or other persons serving EPIX and such rights may be equivalent to, or greater or less than, those provided by the EPIX restated certificate of incorporation.

Even if EPIX is prohibited from indemnifying such persons under the DGCL, it may maintain insurance on behalf of any person who is or was a director, officer, employee or agent of EPIX or is or was serving in such capacity at the request of EPIX with another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person s status as such. EPIX currently maintains such insurance and has also entered into customary indemnification agreements with each of its directors and executive officers.

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Predix. The Predix restated certificate of incorporation, as amended, provides that, to the fullest extent that the DGCL as it now exists or as it may be amended permits, directors shall not be liable to Predix or its stockholders for monetary damages for breach of fiduciary duties as a director. The Predix restated certificate of incorporation, as amended, also provides that, subject to the approval of the Predix board of directors, to the fullest extent that the DGCL as it now exists or as it may be amended permits, Predix is authorized to provide indemnification to its agents. In addition, the Predix restated certificate of incorporation, as amended, provides a right to indemnification of and advancement of expenses to directors, officers, employees and certain agents of Predix. This right to indemnification and advancement of expenses is not exclusive of any other rights to which directors, officers, employees or agents are entitled.

Even if Predix is prohibited from indemnifying such persons under the DGCL, it may maintain insurance at its expense to protect itself and any director, officer, employee or agent against liability. Predix currently maintains such insurance.

Mergers, Acquisitions and Other Transactions

Delaware General Corporation Law. Under the DGCL, the board of directors and a majority of the shares entitled to vote must approve a merger, consolidation or sale of all or substantially all of a corporation s assets. However, unless the corporation provides otherwise in its certificate of incorporation, no stockholder vote of a constituent corporation surviving a merger is required if:

the merger agreement does not amend the constituent corporation s certificate of incorporation;

each share of stock of the constituent corporation outstanding before the merger is an identical outstanding or treasury share of the surviving corporation after the merger; and

either no shares of common stock of the surviving corporation are to be issued or delivered by way of the merger or, if common stock will be issued or delivered, it will not increase the number of outstanding shares of common stock immediately before the merger by more than 20%.

EPIX. The EPIX restated certificate of incorporation requires a 66²/3 vote of the shares of all classes of EPIX stock entitled to vote for the election of directors, considered as one class, to authorize EPIX to do any of the following with any Other Corporation: (a) adopt any agreement for the merger or consolidation of EPIX or any EPIX subsidiary with or into any Other Corporation; (b) authorize any sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of EPIX or any EPIX subsidiary to any Other Corporation; (c) authorize the issuance or transfer by EPIX of EPIX securities having a then fair market value of more than $500,000 in exchange for the securities or assets of any Other Corporation; or (d) engage in any other transaction the effect of which is to combine the assets and business of EPIX or any EPIX subsidiary with any Other Corporation. Because Predix is not an Other Corporation, the EPIX restated certificate of incorporation does not alter the required vote of EPIX stockholders to approve this merger, under the DGCL.

Predix. The Predix restated certificate of incorporation, as amended, alters the required vote of Predix stockholders to approve a merger, consolidation or sale of all or substantially all of Predix s assets under the DGCL such that the approval of the holders of at least (a) 60% of the outstanding shares of Predix preferred stock and (b) 66²/3 % of the outstanding shares of Series C preferred stock is required to approve a merger, consolidation or sale of all or substantially all of Predix s assets.

Dissenters Appraisal Rights

Delaware General Corporation Law. Under the DGCL, dissenters appraisal rights are available to a corporation s stockholders in connection with certain mergers and consolidations. However, no rights are available in certain situations. A corporation s stockholders will not receive such rights if the corporation is

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the surviving corporation and no stockholder vote is required for the merger. Also, no such rights are available if the corporation s stock is either:

listed on a national securities exchange, designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or

held of record by more than 2,000 stockholders.

However, dissenters appraisal rights will be available if the merger or consolidation requires stockholders to exchange their stock for anything other than:

shares of the surviving corporation,

shares of another corporation that will be listed on a national securities exchange, designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 stockholders, or

cash in place of fractional shares.

EPIX. Because EPIX meets at least one of the requisite tests set forth above, its stockholders will not receive dissenters appraisal rights with respect to the merger.

Predix. Because Predix does not meet any of the requisite tests set forth above, Predix stockholders will receive dissenters appraisal rights with respect to the merger. In the event of a proposed merger or consolidation that is approved by (a) the Predix board of directors and (b) the holders of at least $66^2/3$ % of the shares of Series C preferred stock, all stockholders who are party to Predix s Second Amended and Restated Stockholders Agreement are obligated to vote their shares in favor of such a transaction, and those Predix stockholders voting in favor of the merger will not be entitled to appraisal rights.

Rights Plan

EPIX. EPIX does not have a stockholder rights plan.

Predix. Predix does not have a stockholder rights plan.

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EPIX ANNUAL MEETING PROPOSAL NO. 1 APPROVAL OF THE ISSUANCE OF EPIX COMMON STOCK IN THE MERGER AND APPROVAL OF THE MERGER

For a summary and detailed information regarding this proposal, see the information about the merger and the issuance of EPIX common stock as a result thereof throughout this joint proxy statement/ prospectus, including the information set forth in The Merger, The Merger Agreement, The Voting Agreement, Management of EPIX after the Merger and The Annual Meeting of EPIX Stockholders.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE ISSUANCE OF SHARES OF EPIX COMMON STOCK IN THE MERGER IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH ISSUANCE. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 1 TO APPROVE THE ISSUANCE OF SHARES OF EPIX COMMON STOCK IN THE MERGER AND APPROVE THE MERGER.

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EPIX ANNUAL MEETING PROPOSAL NO. 2 AMENDMENT OF RESTATED CERTIFICATE OF INCORPORATION TO INCREASE AUTHORIZED COMMON STOCK

At the EPIX annual meeting, holders of EPIX stock will be asked to approve the amendment of EPIX s restated certificate of incorporation to increase the number of authorized shares of EPIX common stock to 100,000,000.

EPIX s restated certificate of incorporation currently authorizes 40,000,000 shares of common stock. On June 28, 2006, 23,284,810 shares of EPIX common stock were outstanding.

Approximately 23,275,484 shares of EPIX common stock will be issuable upon the effective time of the merger in exchange of the outstanding Predix common stock and preferred stock and upon the exercise of Predix options and warrant assumed by EPIX in the merger. Based on the shares of EPIX common stock outstanding and reserved and the shares of Predix stock outstanding and reserved as of March 31, 2006, (a) assuming the approval of the increase in the authorized shares of EPIX common stock, and following the closing of the merger, EPIX would have approximately 43,538,069 shares of common stock issued, 9,618,901 shares of common stock reserved for issuance under stock incentive plans, an employee stock purchase plan and warrants, and approximately 46,843,030 shares of common stock authorized but unissued and unreserved (b) assuming the approval of the increase in the authorized shares of EPIX common stock and the implementation of a 1.25-for-1 reverse stock split, and following the closing of the merger, EPIX would have approximately 34,830,455 shares of common stock issued, 7,695,121 shares of common stock reserved for issuance under stock incentive plans, an employee stock purchase plan and warrants, and approximately 57,474,424 shares of common stock authorized but unissued and unreserved and (c) assuming the approval of the increase in the authorized shares of EPIX common stock and the implementation of a 4-for-1 reverse stock split, and following the closing of the merger, EPIX would have approximately 31,098,621 shares of common stock issued, 6,870,643 shares of common stock reserved for issuance under stock incentive plans, an employee stock purchase plan and warrants, and approximately 62,030,736 shares of common stock authorized but unissued and unreserved.

EPIX currently does not have sufficient authorized shares to complete the merger and will not have sufficient authorized shares to complete the merger unless it implements the reverse stock split described elsewhere in this joint proxy statement/prospectus at a ratio of between 1:1.33 and 1:4. The EPIX board of directors does not currently know the exact ratio of the reverse stock split it will implement or whether it will implement a reverse stock split at all. Therefore, the EPIX board of directors believes it is necessary to approve the increase in the number of authorized shares of EPIX common stock at the EPIX annual meeting to ensure EPIX has sufficient shares of authorized common stock to issue in connection with the merger regardless of the implementation of the reverse stock split. The EPIX board of directors intends to amend EPIX s restated certificate of incorporation to increase the number of shares of EPIX common stock, if approved, whether or not it is necessary to consummate the merger. At present, EPIX has no plans to issue shares for any other purpose. However, the EPIX board of directors believes it is also desirable to have additional shares available for other corporate purposes that might arise in the future, other than in the merger. For example, although EPIX currently meets its obligations to deliver shares under employee stock options and similar arrangements with treasury shares (meaning previously issued shares that have been reacquired by EPIX), it may become desirable in the future to use newly issued shares for this purpose. Shares could also be issued from time to time for acquisitions or to raise capital. Under some circumstances, it is also possible for a company to use unissued shares for antitakeover purposes, but EPIX has no present intention to take any such action.

Whether or not any future issuance of shares unrelated to the merger would be submitted for stockholder vote depends upon the nature of the issuance, legal and stock exchange requirements, and the judgment of the EPIX board of directors at the time.

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Votes Required to Approve the Amendment of the Restated Certificate of Incorporation

The affirmative vote of the holders of a majority of the outstanding common stock on the record date is required for approval of the amendment of EPIX s restated certificate of incorporation.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT AN AMENDMENT TO EPIX S RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 40,000,000 SHARES TO 100,000,000 SHARES, WHICH REPRESENTS AN ADDITIONAL 60,000,000 SHARES, IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH AMENDMENT. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 2 TO APPROVE AN AMENDMENT TO EPIX S RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 40,000,000 SHARES TO 100,000,000 SHARES. THE APPROVAL OF PROPOSAL NO. 2 MAY BE NECESSARY TO ENABLE EPIX TO ISSUE THE REQUIRED NUMBER OF SHARES OF EPIX COMMON STOCK TO PREDIX STOCKHOLDERS, OPTION HOLDERS AND WARRANT HOLDERS IN CONNECTION WITH THE MERGER.

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EPIX ANNUAL MEETING PROPOSAL NO. 3 AUTHORIZATION OF THE EPIX BOARD OF DIRECTORS TO EFFECT A REVERSE STOCK SPLIT

General

At the EPIX annual meeting, holders of EPIX stock will be asked to approve the proposal that EPIX s restated certificate of incorporation be amended to effect a reverse stock split of the issued and outstanding shares of EPIX common stock (such split to combine a number of outstanding shares of EPIX common stock of between one and one quarter (1.25) and four (4) (such number consisting of any shares, whether whole shares or not, within such range) into one (1) share of EPIX common stock). If approved by the EPIX stockholders, the reverse stock split would become effective upon the closing of the merger. The EPIX board of directors may effect only one reverse stock split in connection with this Proposal No. 3. The EPIX board of directors decision will be based on a number of factors, including market conditions, existing and expected trading prices for EPIX common stock and the listing requirements of The NASDAQ Global Market. Even if the EPIX stockholders approve the reverse stock split, EPIX reserves the right not to effect the reverse stock split if the EPIX board of directors does not deem it to be in the best interests of EPIX and its stockholders to effect the reverse stock split. The EPIX board of directors may determine to effect the reverse stock split, if it is approved by the EPIX stockholders, even if the other proposals to be acted upon at the meeting are not approved, including the issuance of shares of EPIX common stock in the merger.

The form of the proposed amendment to the EPIX restated certificate of incorporation to effect the reverse stock split, as more fully described below, will effect the reverse stock split but will not change the number of authorized shares of EPIX common stock or preferred stock, or the par value of EPIX common stock or preferred stock.

Purpose

The EPIX board of directors approved the proposal authorizing the reverse stock split for the following reasons:

- because it is a condition to Predix s obligations to effect the merger that the EPIX common stock issued in the merger be approved for listing on The NASDAQ Global Market as of consummation of the merger;
- because the listing standards of The NASDAQ Global Market will require EPIX to have, among other things, a $5.00 per share minimum bid price upon the closing of the merger, the reverse stock split may be necessary in order to consummate the merger;
- the EPIX board of directors believes effecting the reverse stock split may be an effective means of avoiding a delisting of EPIX common stock from The NASDAQ Global Market in the future; and
- the EPIX board of directors believes a higher stock price may help generate investor interest in EPIX and help EPIX attract and retain employees.

If the reverse stock split successfully increases the per share price of EPIX common stock, the EPIX board of directors believes this increase could potentially increase trading volume in EPIX common stock and facilitate future financings by EPIX.

Requirements for Listing on The NASDAQ Global Market

EPIX common stock is quoted on The NASDAQ Global Market under the symbol EPIX.

According to the rules of The NASDAQ Global Market, an issuer must, in a case such as this, apply for initial inclusion following a transaction whereby the issuer combines with an entity not listed on The

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NASDAQ Global Market, potentially allowing the entity not listed on The NASDAQ Global Market to obtain a listing on The NASDAQ Global Market. Accordingly, the listing standards of The NASDAQ Global Market will require EPIX to have, among other things, a $5.00 per share minimum bid price upon the closing of the merger. Therefore, the reverse stock split may be necessary to consummate the merger.

Additionally, the EPIX board of directors believes that maintaining its listing on The NASDAQ Global Market could potentially provide a broader market for EPIX common stock and facilitate the use of EPIX common stock in financing and other transactions. The EPIX board of directors unanimously approved the reverse stock split partly as a means of maintaining the share price of EPIX common stock following the merger above $5.00 per share.

One of the effects of the reverse stock split will be to effectively increase the proportion of authorized shares which are unissued relative to those which are issued. This could result in the combined company s management being able to issue more shares without further stockholder approval. For example, if EPIX effects the reverse stock split using the 1:1.25 ratio, its authorized but unissued shares would be approximately 21,372,152 compared to shares issued of approximately 18,627,848 (without giving effect to the amendment to EPIX s restated certificate of incorporation to increase the number of authorized shares of EPIX common stock described in Proposal No. 2). If EPIX effects the reverse stock split using the 1:4 ratio, its authorized but unissued shares would be approximately 34,178,798 compared to shares issued of approximately 5,821,202 (without giving effect to the amendment to EPIX s restated certificate of incorporation to increase the number of authorized shares of EPIX common stock described in Proposal No. 2). EPIX currently has no plans to issue shares, other than in connection with the merger and to satisfy obligations under EPIX s employee stock options from time to time as these options are exercised. The reverse stock split will not affect the number of authorized shares of EPIX common stock. In the event Proposal No. 2 is approved, the number of authorized shares of EPIX common stock will be increased to 100,000,000.

Potential Increased Investor Interest

On July 13, 2006, EPIX common stock closed at $4.58 per share. In approving the proposal authorizing the reverse stock split, the EPIX board of directors considered that EPIX common stock may not appeal to brokerage firms that are reluctant to recommend lower priced securities to their clients. Investors may also be dissuaded from purchasing lower priced stocks because the brokerage commissions, as a percentage of the total transaction, tend to be higher for such stocks. Moreover, the analysts at many brokerage firms do not monitor the trading activity or otherwise provide coverage of lower priced stocks. Also, the EPIX board of directors believes that most investment funds are reluctant to invest in lower priced stocks.

There are risks associated with the reverse stock split, including that the reverse stock split may not result in an increase in the per share price of EPIX common stock.

EPIX cannot predict whether the reverse stock split will increase the aggregate market value for EPIX common stock. The history of similar stock split combinations for companies in like circumstances is varied. There is no assurance that:

- the market price per share of EPIX common stock after the reverse stock split will rise in proportion to the reduction in the number of shares of EPIX common stock outstanding before the reverse stock split;
- the reverse stock split will result in a per share price that will attract brokers and investors who do not trade in lower priced stocks;
- the reverse stock split will result in a per share price that will increase EPIX s ability to attract and retain employees and other service providers; or
- meet the requirements for inclusion for trading on The NASDAQ Global Market after the merger.

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The market price of EPIX common stock will also be based on EPIX s performance and other factors, some of which are unrelated to the number of shares outstanding. If the reverse stock split is effected and the market price of EPIX common stock declines, the percentage decline as an absolute number and as a percentage of EPIX s overall market capitalization may be greater than would occur in the absence of a reverse stock split. Furthermore, the liquidity of EPIX common stock could be adversely affected by the reduced number of shares that would be outstanding after the reverse stock split.

Principal Effects of the Reverse Stock Split

If the stockholders approve the proposal to authorize the EPIX board of directors to implement the reverse stock split and the EPIX board of directors implements the reverse stock split, EPIX will amend the existing provision of its restated certificate of incorporation relating to EPIX s authorized capital to add the following new sentences to the end of the first paragraph of Article Fourth thereof:

Upon the effectiveness of the Certificate of Amendment to the Restated Certificate of Incorporation, as amended, containing this sentence, to effect a plan of recapitalization of the Corporation s Common Stock by effecting a 1-for- reverse stock split with respect to the issued and outstanding shares of the Common Stock, without any change in the powers, preferences and rights or qualifications, limitations or restrictions thereof, such that, without further action of any kind on the part of the Corporation or its stockholders every ( ) shares of Common Stock outstanding or held by the Corporation in its treasury on the date of the filing of the Certificate of Amendment (the Effective Time) shall be changed and reclassified into one (1) share of Common Stock, $0.01 par value per share, which shares shall be fully paid and nonassessable shares of Common Stock. There shall be no fractional shares issued. A holder of record of Common Stock at the Effective Time who would otherwise be entitled to a fraction of a share shall, in lieu thereof, be entitled to receive a cash payment in an amount equal to the fraction to which the stockholder would otherwise be entitled multiplied by the closing price of the Common Stock on The NASDAQ Global Market on the last trading day prior to the Effective Time (or if such price is not available, the average of the last bid and asked prices of the Common Stock on such day or other price determined by the Corporation s Board of Directors).

The reverse stock split will be effected simultaneously for all outstanding shares of EPIX common stock and the exchange ratio will be the same for all shares of EPIX common stock. The reverse stock split will affect all of EPIX s stockholders uniformly and will not affect any stockholder s percentage ownership interests in EPIX, except to the extent that the reverse stock split results in any of EPIX s stockholders owning a fractional share. Common stock issued pursuant to the reverse stock split will remain fully paid and nonassessable. The reverse stock split will not affect EPIX s continuing to be subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended.

Procedure for Effecting Reverse Stock Split and Exchange of Stock Certificates

If the certificate of amendment is approved by EPIX s stockholders, and if the EPIX board of directors still believes that a reverse stock split is in the best interests of EPIX and its stockholders, the EPIX board of directors will determine the ratio of the reverse stock split to be implemented. EPIX will file the certificate of amendment with the Secretary of State of the State of Delaware at such time as the EPIX board of directors may determine to be the appropriate effective time for the reverse stock split. The EPIX board of directors may delay effecting the reverse stock split without resoliciting stockholder approval. The reverse stock split will become effective on the effective date of the split. Beginning on the effective date of the split, each certificate representing pre-split shares will be deemed for all corporate purposes to evidence ownership of post-split shares.

As soon as practicable after the effective date of the split, EPIX s stockholders will be notified that the reverse stock split has been effected. EPIX expects that its transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-split shares will be asked to surrender to the exchange agent certificates representing pre-split shares in exchange for certificates representing post-split shares in accordance with the procedures to be set forth in a letter of transmittal to

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be sent by EPIX. No new certificates will be issued to a stockholder until such stockholder has surrendered such stockholder s outstanding certificate(s) together with the properly completed and executed letter of transmittal to the exchange agent. Any pre-split shares submitted for transfer, whether pursuant to a sale or other disposition, or otherwise, will automatically be exchanged for post-split shares. **EPIX S STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY CERTIFICATE(S) UNTIL REQUESTED TO DO SO.**

Fractional Shares

No fractional shares will be issued in connection with the reverse stock split. EPIX s stockholders of record who otherwise would be entitled to receive fractional shares because they hold a number of pre-split shares not evenly divisible by the number of pre-split shares for which each post-split share is to be exchanged, will be entitled, upon surrender to the exchange agent of certificates representing such shares, to a cash payment in lieu thereof at a price equal to the fraction to which the stockholder would otherwise be entitled multiplied by the closing price of the common stock on The NASDAQ Global Market on the last trading day prior to the effective date of the split or if such price is not available, the average of the last bid and asked prices of the common stock on such day or other price determined by the EPIX board of directors. The ownership of a fractional interest will not give the holder thereof any voting, dividend or other rights except to receive payment therefor as described herein.

Stockholders should be aware that, under the escheat laws of the various jurisdictions where stockholders reside, where EPIX is domiciled, and where the funds will be deposited, sums due for fractional interests that are not timely claimed after the effective date of the split may be required to be paid to the designated agent for each such jurisdiction, unless correspondence has been received by EPIX or the exchange agent concerning ownership of such funds within the time permitted in such jurisdiction. Thereafter, stockholders otherwise entitled to receive such funds will have to seek to obtain them directly from the state to which they were paid.

Accounting Matters

The reverse stock split will not affect the common stock capital account on EPIX s balance sheet. However, because the par value of EPIX common stock will remain unchanged on the effective date of the split, the components that make up the common stock capital account will change by offsetting amounts. Depending on the size of the reverse stock split the EPIX board of directors decides to implement, the stated capital component will be reduced to an amount between four-fifths (4/5) and one-fourth (1/4) of its present amount, and the additional paid-in capital component will be increased with the amount by which the stated capital is reduced. The per share net income or loss and net book value of EPIX common stock will be increased because there will be fewer shares of EPIX common stock outstanding. Prior periods per share amounts will be restated to reflect the reverse stock split.

Potential Anti-Takeover Effect

Although the increased proportion of unissued authorized shares to issued shares could, under certain circumstances, have an anti-takeover effect (for example, by permitting issuances that would dilute the stock ownership of a person seeking to effect a change in the composition of the EPIX board of directors or contemplating a tender offer or other transaction for the combination of EPIX with another company), the reverse stock split proposal is not being proposed in response to any effort of which EPIX is aware to accumulate shares of EPIX common stock or obtain control of EPIX, nor is it part of a plan by management to recommend a series of similar amendments to the EPIX board of directors and stockholders, other than to consummate the merger with Predix. Other than the reverse stock split proposal and the other proposals set forth in this joint proxy statement/ prospectus pertaining to the merger, the EPIX board of directors does not currently contemplate recommending the adoption of any

other actions that could be construed to affect the ability of third parties to take over or change control of EPIX.

No Appraisal Rights

Under the General Corporation Law of the State of Delaware, EPIX s stockholders are not entitled to appraisal rights with respect to the reverse stock split, and EPIX will not independently provide stockholders with any such right.

Material United States Federal Income Tax Consequences of the Reverse Stock Split

The following is a summary of certain material federal income tax consequences of the reverse stock split and does not purport to be a complete discussion of all of the possible federal income tax consequences of the reverse stock split and is included for general information only. Further, it does not address any state, local or foreign income or other tax consequences. For example, the state and local tax consequences of the reverse stock split may vary significantly as to each stockholder, depending upon the state in which such stockholder resides. Also, the following summary does not address the tax consequences to holders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. The discussion is based on the current provisions of the Internal Revenue Code of 1986, as amended, or the Code, existing Treasury Regulations and current administrative rulings and court decisions all of which are subject to change and to differing interpretations, possibly with retroactive effect. This summary also assumes that the pre-split shares were, and the post-split shares will be, held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). The tax treatment of a stockholder may vary depending upon the particular facts and circumstances of such stockholder. Each stockholder is urged to consult with such stockholder s own tax advisor with respect to the tax consequences of the reverse stock split.

Other than the cash payments for fractional shares discussed below, no gain or loss should be recognized by a stockholder upon such stockholder s exchange of pre-split shares for post-split shares pursuant to the reverse stock split. The aggregate tax basis of the post-split shares received in the reverse stock split, including any fraction of a post-split share deemed to have been received, will be the same as the stockholder s aggregate tax basis in the pre-split shares that are exchanged.

In general, stockholders who receive cash upon redemption of their fractional share interests in the post-split shares as a result of the reverse stock split will recognize gain or loss equal to the difference between their basis in the fractional share and the amount of cash received. The stockholder s holding period for the post-split shares will include the period during which the stockholder held the pre-split shares surrendered in the reverse stock split.

Such gain or loss will be capital gain or loss, and generally will constitute long-term capital gain or loss if the stockholder s holding period in the stock surrendered is more than one year as of the effective time of the merger. Net capital gain (i.e., the excess of net long-term capital gain over net short-term capital loss) will be subject to tax at reduced rates for non-corporate stockholders who receive cash. The deductibility of capital losses is subject to various limitations for corporate and non-corporate holders.

For purposes of the above discussion of bases and holding periods, stockholders who acquired different blocks of stock at different times for different prices must calculate their gains and losses and holding periods separately for each identifiable block of such stock surrendered in the reverse stock split.

EPIX s view regarding the tax consequence of the reverse stock split is not binding on the Internal Revenue Service or the courts. Accordingly, each stockholder should consult with such stockholder s own tax advisor with respect to all of the potential tax consequences to such stockholder of the reverse stock split.

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Vote Required to Authorize the EPIX Board of Directors to Effect the Reverse Stock Split

The affirmative vote of the holders of a majority of the outstanding common stock on the record date is required to authorize the EPIX board of directors to amend in its discretion EPIX s restated certificate of incorporation to effect the reverse stock split.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT AUTHORIZING THE EPIX BOARD OF DIRECTORS TO AMEND IN ITS DISCRETION EPIX S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF EPIX S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK, AT SUCH RATIO TO BE DETERMINED BY THE EPIX BOARD OF DIRECTORS, IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED SUCH AUTHORIZATION. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 3 TO AUTHORIZE THE EPIX BOARD OF DIRECTORS TO AMEND IN ITS DISCRETION EPIX S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF EPIX S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK, AT SUCH RATIO TO BE DETERMINED BY THE EPIX BOARD OF DIRECTORS. THE APPROVAL OF PROPOSAL NO. 3 MAY BE NECESSARY FOR EPIX TO MAINTAIN ITS ELIGIBILITY FOR TRADING ON THE NASDAQ GLOBAL MARKET AFTER COMPLETION OF THE MERGER, WHICH IS A CONDITION TO CONSUMMATION OF THE MERGER.

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EPIX ANNUAL MEETING PROPOSAL NO. 4 ELECTION OF EPIX DIRECTORS

The EPIX board of directors nominated Mark Leuchtenberger and Michael Gilman, Ph.D. for election as Class I directors and Robert J. Perez for election as a Class II director at the EPIX annual meeting. The EPIX board of directors currently consists of five members, classified into three classes as follows: (a) Peter Wirth, Mark Leuchtenberger and Michael Gilman, Ph.D. constitute a class with a term ending at the upcoming 2006 annual stockholders meeting, or the Class I directors; (b) Gregory D. Phelps constitutes a class with a term ending at the 2007 annual meeting, or the Class II director; and (c) Christopher F.O. Gabrieli constitutes a class with a term ending at the 2008 annual meeting, or the Class III director. At each annual meeting of stockholders, directors nominated to the class of directors whose term expires at the annual meeting are elected for a full three-year term to succeed those directors whose terms are expiring. Nominees for directors to classes not expiring at the annual meeting are elected for terms that coincide with the remaining term of the respective class. Peter Wirth has notified EPIX that he will not stand for reelection to the EPIX board of directors at the 2006 EPIX annual meeting.

The EPIX board of directors has voted (a) to set the size of the EPIX board of directors at five members, (b) to nominate each of Mark Leuchtenberger and Michael Gilman, Ph.D. for election at the annual meeting as Class I directors for a term of three years to serve until the 2009 annual meeting of stockholders, and until their respective successors have been elected and qualified and (c) to nominate Robert J. Perez for election at the annual meeting as a Class II director for a term of one year to serve until the 2007 annual meeting of stockholders, and until his successor has been elected and qualified; provided, however, that, if Proposal Nos. 1, 2 and 3 are adopted and the merger is completed, the EPIX board of directors will consist of the nine persons identified in this joint proxy statement/ prospectus. A Class II director and a Class III director will serve until the annual meetings of stockholders to be held in 2007 and 2008, respectively, and until their respective successors have been elected and qualified.

Unless authority to vote for any of these nominees is withheld, the shares represented by the enclosed proxy will be voted FOR the election as directors of Mark Leuchtenberger, Michael Gilman, Ph.D. and Robert J. Perez; provided, however, that, if Proposal Nos. 1, 2 and 3 are adopted and the merger is completed, the EPIX board of directors will consist of the nine persons identified in this joint proxy statement/ prospectus. In the event that the nominee becomes unable or unwilling to serve, the shares represented by the enclosed proxy will be voted for the election of such other person as the EPIX board of directors may recommend in his/her place. We have no reason to believe that any nominee will be unable or unwilling to serve as a director.

Votes Required to Elect Directors

A plurality of the shares voted affirmatively or negatively at the annual meeting is required to elect each nominee as a director.

THE EPIX BOARD OF DIRECTORS RECOMMENDS THE ELECTION OF MARK LEUCHTENBERGER, MICHAEL GILMAN, PH.D. AND ROBERT J. PEREZ AS DIRECTORS, AND PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED IN FAVOR THEREOF UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY; PROVIDED, HOWEVER, THAT, IF PROPOSAL NOS. 1, 2 AND 3 ARE ADOPTED AND THE MERGER IS COMPLETED, THE EPIX BOARD OF DIRECTORS WILL CONSIST OF THE NINE PERSONS IDENTIFIED IN THIS JOINT PROXY STATEMENT/ PROSPECTUS.

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EPIX ANNUAL MEETING PROPOSAL NO. 5 RATIFICATION OF SELECTION OF EPIX S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of the EPIX board of directors has appointed Ernst & Young LLP, independent public accountants, to audit EPIX s financial statements for the year ending December 31, 2006. The EPIX board of directors proposes that the stockholders ratify this appointment. Ernst & Young LLP audited EPIX s financial statements for the year ended December 31, 2005. EPIX expects that representatives of Ernst & Young LLP will be present at the meeting, will be able to make a statement if they so desire, and will be available to respond to appropriate questions.

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of EPIX s annual financial statements for the years ended December 31, 2005 and 2004, and fees billed for tax services rendered by Ernst & Young LLP during those periods. The audit committee of the EPIX board of directors considered the provision of the services corresponding to these fees in its finding that the services are compatible with Ernst & Young LLP maintaining its independence.

	Year Ended	
	December 31, 2005	December 31, 2004
Audit Fees:(1)	$ 265,500	$ 393,000
Audit-Related Fees:(2)		
Tax Fees:(3)	17,700	27,872
All Other Fees:(4)		
Total	283,200	420,872

(1) Audit Fees consist of fees for professional services rendered for the audit of EPIXs annual financial statements, a review of the interim financial statements included in the quarterly reports, a review of internal controls of financial reporting (Section 404) and services normally provided by Ernst & Young LLP in connection regulatory filings, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits.

(2) Audit-Related Fees consist of fees for assurance and related services that are reasonably related to the performance of an audit or review of EPIX s financial statements and are not reported under Audit Fees. The category includes fees for the review of EPIX s employee benefit plans. In 2004, EPIX hired an accounting firm other than Ernst & Young LLP to audit the employee benefit plans.

(3) Tax Fees consist of fees for professional services rendered in preparing the federal and state tax returns, and for providing tax compliance, tax advice and tax planning assistance.

(4) All Other Fees consist of fees for services other than the services reported above.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors

Consistent with Securities and Exchange Commission policies regarding auditor independence, the audit committee of the EPIX board of directors has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the audit committee of the EPIX board of directors has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for the next year s audit, management will submit an aggregate of services expected to be rendered during that year for each of four categories of services to the audit committee of the EPIX board of directors for approval.

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1. *Audit* services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, and attest services and consultation regarding financial accounting and/or reporting standards.

2. *Audit-Related* services are for assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. *Tax* services include all services performed by the independent auditor s tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.

4. *Other Fees* are those associated with services not captured in the other categories.

Prior to engagement, the audit committee of the EPIX board of directors pre-approves these services by category of service. The fees are budgeted and the audit committee of the EPIX board of directors requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by the category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the audit committee of the EPIX board of directors requires specific pre-approval before engaging the independent auditor.

The audit committee of the EPIX board of directors may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the audit committee of the EPIX board of directors at its next scheduled meeting.

In the event the stockholders do not ratify the appointment of Ernst & Young LLP as our independent public accountants, the audit committee of the EPIX board of directors will reconsider its appointment.

Votes Required to Ratify the Appointment of EPIX s Independent Registered Public Accounting Firm

The affirmative vote of the holders of a majority of the shares present at the EPIX annual meeting, whether in person or by proxy, is required to ratify the appointment of the independent public accountants.

THE EPIX BOARD OF DIRECTORS RECOMMENDS A VOTE TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT PUBLIC ACCOUNTANTS, AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR OF SUCH RATIFICATION UNLESS A STOCKHOLDER INDICATES OTHERWISE ON THE PROXY.

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EPIX ANNUAL MEETING PROPOSAL NO. 6 APPROVAL OF POSSIBLE ADJOURNMENT OF ANNUAL MEETING

If EPIX fails to receive a sufficient number of votes to approve Proposal Nos. 1, 2 and 3, EPIX may propose to adjourn the annual meeting, if a quorum is present, for a period of not more than 30 days for the purpose of soliciting additional proxies to approve Proposal Nos. 1, 2 and 3. EPIX currently does not intend to propose adjournment at the annual meeting if there are sufficient votes to approve Proposal Nos. 1, 2 and 3.

Votes Required to Approve the Adjournment of the Annual Meeting

The approval to adjourn the EPIX annual meeting requires the affirmative vote of the holders of a majority of the shares present at the EPIX annual meeting, whether in person or by proxy.

THE EPIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT ADJOURNING THE EPIX ANNUAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NOS. 1, 2 AND 3 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, EPIX AND ITS STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE PROPOSAL. THE EPIX BOARD OF DIRECTORS RECOMMENDS THAT EPIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 6 TO ADJOURN THE EPIX ANNUAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NOS. 1, 2 AND 3.

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PREDIX SPECIAL MEETING PROPOSAL NO. 1 APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND APPROVAL OF THE MERGER

For a summary and detailed information regarding this proposal, see the information about the merger agreement and the merger throughout this joint proxy statement/ prospectus, including the information set forth in The Merger, The Merger Agreement, The Voting Agreement, Management of EPIX after the Merger and The Special Meeting of Predix Stockholders.

THE PREDIX BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE MERGER IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, PREDIX AND ITS STOCKHOLDERS AND HAS APPROVED THE MERGER AND THE MERGER AGREEMENT. THE PREDIX BOARD OF DIRECTORS RECOMMENDS THAT PREDIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 1 TO APPROVE AND ADOPT THE MERGER AGREEMENT AND TO APPROVE THE MERGER.

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PREDIX SPECIAL MEETING PROPOSAL NO. 2 APPROVAL OF POSSIBLE ADJOURNMENT OF SPECIAL MEETING

If Predix fails to receive a sufficient number of votes to approve Proposal No. 1, Predix may propose to adjourn the special meeting, if a quorum is present, for a period of not more than 30 days for the purpose of soliciting additional proxies to approve Proposal No. 1. Predix currently does not intend to propose adjournment at the special meeting if there are sufficient votes to approve Proposal No. 1.

THE PREDIX BOARD OF DIRECTORS HAS CONCLUDED THAT THE PROPOSAL TO ADJOURN THE PREDIX SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF THE FOREGOING PROPOSAL NO. 1 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, PREDIX AND ITS STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE PROPOSAL. ACCORDINGLY, THE PREDIX BOARD OF DIRECTORS RECOMMENDS THAT PREDIX STOCKHOLDERS VOTE FOR PROPOSAL NO. 2 TO ADJOURN THE PREDIX SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF PROPOSAL NO. 1.

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EXPERTS

The financial statements of EPIX Pharmaceuticals, Inc. at December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, included in the joint proxy statement of EPIX Pharmaceuticals, Inc. which is referred to and made a part of this prospectus and registration statement, have been audited by Ernst and Young LLP, independent registered public accounting firm, as set forth in their report, appearing elsewhere herein, and are included in reliance upon such report given on the authority of said firm as experts in accounting and auditing.

The consolidated financial statements of Predix Pharmaceuticals Holdings, Inc. at December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, included in the joint proxy statement of Predix Pharmaceuticals Holdings, Inc. which is referred to and made a part of this prospectus and registration statement, have been audited by Ernst and Young LLP, independent auditors, as set forth in their report (which contains an explanatory paragraph describing conditions that raise substantial doubt about the company s ability to continue as a going concern as described in Note 1 to the consolidated financial statements), appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

LEGAL MATTERS

The validity of the shares of EPIX common stock offered hereby and certain tax matters will be passed upon for EPIX by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo P.C., Boston, Massachusetts. Certain tax matters will be passed upon for Predix by Goodwin Procter LLP, Boston, Massachusetts.

STOCKHOLDER PROPOSALS

EPIX s by-laws provide that in order for a stockholder to bring business before or propose director nominations at an annual meeting, the stockholder must give written notice to EPIX s Secretary not less than 50 days, nor more than 75 days prior to the meeting. The notice must contain specified information about the proposed business of each nominee and the stockholder making the proposal or nomination. If less than 65 days notice or prior public disclosure of the date of the annual meeting is given or made to stockholders, the notice given by the stockholder must be received not later than the 15th day following the day on which the notice of such annual meeting date was mailed or public disclosure made, whichever first occurs. Proposals that are not received within the time frames set for the above will not be voted on at the annual meeting. If a proposal is received within these time frames, the proxies that management solicits for the meeting may still exercise discretionary voting authority on the proposal under circumstances consistent with the proxy rules of the Securities and Exchange Commission. All stockholder proposals should be marked for the attention of Secretary, EPIX Pharmaceuticals, Inc., 161 First Street, Cambridge, Massachusetts 02142.

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WHERE YOU CAN FIND MORE INFORMATION

EPIX has filed reports, proxy statements and other information with the Securities and Exchange Commission. Copies of EPIX s reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at the Securities and Exchange Commission s Headquarters, Public Reference Section, 100 F Street, N.E., Washington D.C. 20549. The public may obtain information on the operation of the Securities and Exchange Commission s public reference facilities by calling the Securities and Exchange Commission at 1-800-SEC-0330.

Copies of these materials can also be obtained by mail at prescribed rates from the Public Reference Section of the Securities and Exchange Commission at the Securities and Exchange Commission s Headquarters or by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website that contains reports, proxy statements and other information regarding EPIX. The address of the Securities and Exchange Commission s website is http://www.sec.gov.

Reports, proxy statements and other information concerning EPIX may also be inspected at The National Association of Securities Dealers, 1735 K Street N.W., Washington, D.C. 20006.

The following documents are incorporated by reference into this joint proxy statement/ prospectus:

(a) EPIX s Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 1, 2006 (File No. 000-21863);

(b) EPIX s Current Report on Form 8-K filed on February 1, 2006 reporting the February 1, 2006 event (File No. 000-21863);

(c) EPIX s Current Report on Form 8-K filed on February 16, 2006 reporting the February 10, 2006 event (File No. 000-21863);

(d) EPIX s Current Report on Form 8-K filed on March 9, 2006 reporting the March 7, 2006 event (File No. 000-21863);

(e) EPIX s Current Report on Form 8-K filed on April 3, 2006 reporting the April 3, 2006 event (File No. 000-21863);

(f) EPIX s Current Report on Form 8-K filed on April 26, 2006 reporting the April 21, 2006 event (File No. 000-21863);

(g) EPIX s Annual Report, as amended, on Form 10-K/ A for the year ended December 31, 2005 filed on April 28, 2006 (File No. 000-21863);

(h) EPIX s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 filed on May 5, 2006 (File No. 000-21863);

(i) EPIX s Current Report on Form 8-K filed on May 8, 2006 reporting the May 5, 2006 event (File No. 000-21863);

(j) EPIX s Current Report on Form 8-K filed on May 24, 2006 reporting the May 19, 2006 event (File No. 000-21863); and

(k) EPIX s Current Report on Form 8-K filed on July 12, 2006 reporting the July 10, 2006 event (File No. 000-21863).

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All documents filed by EPIX following the date of this joint proxy statement/ prospectus pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, shall be deemed to be incorporated by reference into this joint proxy statement/ prospectus.

You should rely only on the information contained in this joint proxy statement/ prospectus or on information to which EPIX has referred you. EPIX and Predix have not authorized anyone else to provide you with any information. EPIX provided the information concerning EPIX. Predix provided the information concerning Predix.

EPIX has filed a registration statement under the Securities Act of 1933, as amended, with the Securities and Exchange Commission with respect to EPIX common stock to be issued to Predix stockholders in the merger. This joint proxy statement/ prospectus constitutes the prospectus of EPIX filed as part of the registration statement. This joint proxy statement/ prospectus does not contain all of the information set forth in the registration statement because certain parts of the registration statement are omitted as provided by the rules and regulations of the Securities and Exchange Commission. You may inspect and copy the registration statement at any of the addresses listed above.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
EPIX Pharmaceuticals, Inc.:

We have audited the accompanying balance sheets of EPIX Pharmaceuticals, Inc. (formerly EPIX Medical, Inc.) as of December 31, 2004 and 2005, and the related statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (U.S.). 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 financial statements referred to above present fairly, in all material respects, the financial position of EPIX Pharmaceuticals, Inc. at December 31, 2004 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), the effectiveness of EPIX Pharmaceuticals, Inc. s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 27, 2006

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EPIX PHARMACEUTICALS, INC.
BALANCE SHEETS

	December 31,	
	2004	**2005**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,364,538	$ 72,502,906
Available-for-sale marketable securities	91,075,630	52,225,590
Accounts receivable	322,546	149,287
Prepaid expenses and other assets	585,138	346,919
Total current assets	165,347,852	125,224,702
Property and equipment, net	2,490,804	2,517,859
Other assets	3,448,270	2,973,155
Total assets	$ 171,286,926	$ 130,715,716
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 938,498	$ 1,268,325
Accrued expenses	4,218,834	4,310,003
Contract advances	6,150,013	6,112,549
Loan payable to strategic partner	15,000,000	
Deferred revenue	2,387,882	435,861
Total current liabilities	28,695,227	12,126,738
Deferred revenue	1,209,725	755,647
Convertible debt	100,000,000	100,000,000
Commitments and Contingencies		
Stockholders equity:		
Preferred Stock, $0.01 par value, 1,000,000 shares authorized; no shares issued		
Common Stock, $0.01 par value, 40,000,000 shares authorized; 23,284,810 and 23,190,154 shares issued and outstanding at December 31, 2005 and 2004, respectively	231,900	232,848
Additional paid-in-capital	196,730,731	197,311,313
Accumulated deficit	(155,333,774)	(179,644,632)
Accumulated other comprehensive loss	(246,883)	(66,198)
Total stockholders equity	41,381,974	17,833,331
Total liabilities and stockholders equity	$ 171,286,926	$ 130,715,716

See accompanying notes.

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EPIX PHARMACEUTICALS, INC.
STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2003	**2004**	**2005**
Revenues:			
Product development revenue	$ 9,534,335	$ 7,594,280	$ 4,195,530
Royalty revenue	2,397,393	626,685	2,333,384
License fee revenue	1,593,284	4,037,636	660,747
Total revenues	13,525,012	12,258,601	7,189,661
Operating expenses:			
Research and development	28,023,522	21,873,991	20,775,771
General and administrative	6,584,318	10,495,377	10,244,271
Restructuring costs			971,828
Total operating expenses	34,607,840	32,369,368	31,991,870
Operating loss	(21,082,828)	(20,110,767)	(24,802,209)
Interest income	663,519	1,958,152	4,146,532
Interest expense	(295,168)	(2,128,738)	(3,613,190)
Loss before provision for income taxes	(20,714,477)	(20,281,353)	(24,268,867)
Provision for income taxes	80,075	99,905	41,991
Net loss	$ (20,794,552)	$ (20,381,258)	$ (24,310,858)
Weighted average shares:			
Basic and diluted	19,055,698	22,888,673	23,258,187
Net loss per share, basic and diluted	$ (1.09)	$ (0.89)	$ (1.05)

See accompanying notes.

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EPIX PHARMACEUTICALS, INC.
STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(loss)	Total Stockholders (Deficit) Equity
	Shares	Amount				
Balance at December 31, 2002	17,074,034	$ 170,740	$ 119,712,094	$ (114,157,964)	$ 161,645	$ 5,886,515
Issuance of common stock upon exercise of options	573,737	5,738	3,488,632			3,494,370
Issuance of common stock under employee stock purchase plan	25,871	259	207,838			208,097
Issuance of common stock	4,645,000	46,450	65,443,384			65,489,834
Net loss				(20,794,552)		(20,794,552)
Available-for-sale marketable securities unrealized loss					(127,692)	(127,692)
Comprehensive loss						(20,922,244)
Balance at December 31, 2003	22,318,642	$ 223,187	$ 188,851,948	$ (134,952,516)	$ 33,953	$ 54,156,572
Issuance of common stock upon exercise of options	723,554	7,234	5,211,805			5,219,039
Issuance of common stock under employee stock purchase plan	15,958	159	231,950			232,109
Issuance of common stock	132,000	1,320	2,337,720			2,339,040
Compensatory stock option expense			97,308			97,308
Net loss				(20,381,258)		(20,381,258)
Available-for-sale marketable securities unrealized loss					(280,836)	(280,836)
Comprehensive loss						(20,662,094)
Balance at December 31, 2004	23,190,154	$ 231,900	$ 196,730,731	$ (155,333,774)	$ (246,883)	$ 41,381,974
Issuance of common stock upon exercise of	75,498	756	473,359			474,115

options						
Issuance of common stock under employee stock purchase plan	19,158	192	103,804			103,996
Compensatory stock option expense			3,419			3,419
Net loss				(24,310,858)		(24,310,858)
Available-for-sale marketable securities unrealized gain					180,685	180,685
Comprehensive loss						(24,130,173)
Balance at December 31, 2005	23,284,810	$ 232,848	$ 197,311,313	$ (179,644,632)	$ (66,198)	$ 17,833,331

See accompanying notes.

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EPIX PHARMACEUTICALS, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	**2004**	**2005**
Operating activities:			
Net loss	$ (20,794,552)	$ (20,381,258)	$ (24,310,858)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	638,282	1,000,101	1,188,610
Stock compensation expense		97,308	3,419
Amortization of deferred financing costs		260,188	475,115
Changes in operating assets and liabilities:			
Accounts receivable	129,060	(276,474)	173,259
Prepaid expenses and other current assets	122,520	(191,459)	238,219
Other assets	(4,313)	4,943	
Accounts payable	43,804	(999,867)	329,827
Accrued expenses	1,454,932	(1,300,985)	91,169
Accrued reacquisition costs	(2,400,000)		
Contract advances	40,636	2,977,306	(37,464)
Deferred revenue	(3,189,929)	(3,650,620)	(2,406,099)
Net cash used in operating activities	(23,959,560)	(22,460,817)	(24,254,803)
Investing activities:			
Purchases of marketable securities	(43,344,575)	(93,663,936)	(88,618,059)
Sale or redemption of marketable securities	23,488,773	45,607,145	127,648,784
Purchases of fixed assets	(758,826)	(2,077,559)	(1,215,665)
Net cash provided by (used in) investing activities	(20,614,628)	(50,134,350)	37,815,060
Financing activities:			
Net proceeds from issuance of convertible debt		96,350,000	
Proceeds from loan payable from strategic partner	15,000,000	52,500,000	45,000,000
Repayment of loan payable to strategic partner	(7,500,000)	(45,000,000)	(60,000,000)
Proceeds from stock options	3,494,370	5,219,039	474,115
Proceeds from Employee Stock Purchase Plan	208,097	232,109	103,996
Proceeds from sale of common stock	65,489,834		
Net cash provided by (used in) financing activities	76,692,301	109,301,148	(14,421,889)
Net increase (decrease) in cash and cash equivalents	32,118,113	36,705,981	(861,632)
Cash and cash equivalents at beginning of period	4,540,444	36,658,557	73,364,538
Cash and cash equivalents at end of period	$ 36,658,557	$ 73,364,538	$ 72,502,906
Supplemental cash flow information:			
Cash paid for interest	$ 329,982	$ 1,747,236	$ 3,145,883

Cash paid for taxes	$ 99,655	$ 107,889	$ 41,991
Supplemental disclosure of noncash financing and investing activities:			
Issuance of common stock in connection with Intellectual Property Agreement	$	$ 2,339,040	$

See accompanying notes.

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1. Business

EPIX Pharmaceuticals, Inc. (EPIX or the Company), formerly known as EPIX Medical, Inc., was formed in 1988 and commenced operations in 1992. The Company discovers and develops innovative pharmaceuticals for imaging that are designed to transform the diagnosis, treatment and monitoring of disease. The Company uses its proprietary Target Visualization Technology[tm] to create imaging agents targeted at the molecular level. These agents are designed to enable physicians to use magnetic resonance imaging (MRI) to obtain detailed information about specific disease processes. MRI has been established as the imaging technology of choice for a broad range of applications, including the identification and diagnosis of a variety of medical disorders. MRI is safe, relatively cost-effective and provides three-dimensional images that enable physicians to diagnose and manage disease in a minimally invasive manner.

The Company is currently developing two products for use in MRI to improve the diagnosis of multiple diseases affecting the body s arteries and veins, collectively known as the vascular system: Vasovist, the Company s novel blood-pool contrast agent for use in magnetic resonance angiography, which was approved for marketing in all 25 member states of the E.U. in October 2005; and EP-2104R for detecting human thrombus, or blood clots, using MRI. The Company has entered into various partnership agreements with Schering AG with respect to Vasovist and other of its product candidates. The Company currently owns all development rights to EP-2104R and intends to pursue a collaboration for the continued development of EP-2104R.

2. Significant Accounting Policies

Cash Equivalents

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of money market accounts, commercial paper and federal agency obligations.

Marketable Securities

The Company accounts for marketable securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). SFAS 115 establishes the accounting and reporting requirements for all debt securities and for investments in equity securities that have readily determinable fair values. Marketable securities consist of investment-grade corporate bonds, asset-backed debt securities and government-sponsored agency debt securities. The Company classifies its marketable securities as available-for-sale and, as such, carries the investments at fair value, with unrealized holding gains and losses included in accumulated other comprehensive income or loss. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains or losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income. The cost of securities is based on the specific identification method.

Fair Value of Financial Instruments

At December 31, 2005 and 2004, the Company s financial instruments consisted of cash and cash equivalents, available-for-sale marketable securities and debt. The carrying value of cash equivalents and the loan payable to strategic partner approximates fair value due to their short-term nature. The carrying value of the available-for-sale marketable securities and convertible debt is further discussed in Notes 2

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

and 7, respectively. The fair value of the 3.0% convertible senior notes, which is based on quoted market prices, was approximately $65.0 million at December 31, 2005.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of cash equivalents, available-for-sale marketable securities and accounts receivable. In accordance with the Company s investment policy, marketable securities are principally restricted to U.S. government securities, high-grade bank obligations, high-grade corporate bonds, commercial paper and certain money market funds. Although the Company had $124.7 million of cash, cash equivalents and available-for-sale marketable securities invested through two investment advisors as of December 31, 2005, the credit risk exposure of its investments was limited because of a diversified portfolio that included debt of various government-sponsored enterprises, such as Federal National Mortgage Association, Federal Farm Credit Bank Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank; high-grade corporate bonds and commercial paper; certificates of deposit and money market funds.

The Company performs ongoing credit evaluations of its collaborators financial condition, but does not require collateral. The Company continuously monitors collections from collaborators. Historically, the Company has not experienced losses related to its accounts receivable. If the financial condition of its collaborators were to deteriorate, resulting in an impairment of their ability to make payments, the establishment of an allowance may be required.

Property and Equipment

Property and equipment are recorded at historical cost. Depreciation on laboratory equipment, furniture and fixtures and other equipment is determined using the straight-line method over the estimated useful lives of the related assets, ranging from 2 to 5 years. Leasehold improvements are amortized using the straight-line method over the shorter of the asset life or the remaining life of the lease. Expenditures for maintenance and repairs are charged to expense as incurred; improvements which extend the life or use of equipment are capitalized.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company recognizes impairment losses on long-lived assets when indicators of impairment are present and future undiscounted cash flows are insufficient to support the assets recovery.

Income Taxes

The Company provides for income taxes under SFAS No. 109, *Accounting for Income Taxes.* Under this method, deferred taxes are recognized using the liability method, whereby tax rates are applied to cumulative temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes are based on when and how they are expected to affect the tax return. A valuation allowance is provided to the extent that there is uncertainty as to the Company s ability to generate sufficient taxable income in the future to realize the benefit from its net deferred tax asset.

Segment Information

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information,* establishes standards for reporting information regarding operating segments and for related disclosures about products

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

and services and geographical areas. The Company operates in one business segment, which is the development of targeted contrast agents.

Revenue

For the years ended December 31, 2003, 2004 and 2005, Schering AG represented 74%, 64% and 63%, respectively, of total revenues and Bracco represented 21%, 33% and 36%, respectively, of total revenues.

Product development revenue

In June 2000, the Company entered into a strategic collaboration agreement with Schering AG, whereby each party to the agreement shares equally in Vasovist development costs and U.S. operating profits and the Company will receive royalties related to non-U.S. sales. The Company recognizes as revenue the cash consideration received from Schering AG for efforts provided by the Company in excess of the Company s 50% development obligation. This revenue is recognized in the same period in which the costs are incurred. With respect to payments due to Schering AG, if any, in connection with the Vasovist development program, the Company would recognize such amounts as a reduction to revenue at the time Schering AG performs the research and development activities for which the Company is obligated to pay Schering AG.

On a monthly basis, the Company calculates the revenue or reduction to revenue, as the case may be, with respect to the partnership with Schering AG for Vasovist as follows:

The Company calculates its development costs directly related to Vasovist.

The Company obtains cost reports, or an estimate of costs, from Schering AG for costs incurred by Schering AG related to the development of Vasovist during the same period. Where estimates are used, the Company reviews the estimates and records adjustments in the subsequent quarter when the Company receives actual results from Schering AG. To date, there have been no material adjustments.

The Company multiplies its and Schering AG s development costs by approximately 50% based on the contractual allocation of work contemplated under the agreement.

The Company then records the net difference as development revenue if the balance results in a payment to the Company and negative revenue if the balance results in a payment to Schering AG.

The result of this calculation is that the Company records revenue only for amounts it is owed by Schering AG in excess of 50% of development expenses of the project in the particular period and the Company would record a reduction to revenue for any amounts owed to Schering AG in the particular period. To date, the Company has not been required to make any payments to Schering AG.

The additional payments made by Schering AG to the Company represent revenue to the Company because the Company is providing additional services to Schering AG which Schering AG was contractually obligated to perform. For example, the Company performed substantial amounts of the work on behalf of Schering AG required to prepare the regulatory submission to the European regulatory authorities which would otherwise have been Schering AG s responsibility under the agreement. Had the Company not performed these and other additional services, Schering AG would have had to contract a third party to perform the work or Schering AG would have had to perform the work itself.

In May 2003, the Company entered into a development agreement with Schering AG for EP-2104R and a collaboration agreement with Schering AG for MRI research as described in Note 12. Under the EP-2104R development agreement, Schering AG agreed to make fixed payments totaling approximately

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

$9.0 million over two years to the Company, which began in the second quarter of 2003 and ended in the fourth quarter of 2004, to cover a portion of the Company s expenditures in the feasibility program. The Company recognizes revenue from Schering AG for the EP-2104R feasibility program in proportion to actual cost incurred relative to the estimated total program costs. As estimated total cost to complete a program increases, revenue is adjusted downwards, and conversely, as estimated cost to complete decreases, revenue is adjusted upwards. Total estimated costs of the feasibility program are based on management s assessment of costs to complete the program based upon an evaluation of the portion of the program completed, costs incurred to date and expected future costs of the program. To the extent that estimated costs to complete the feasibility program change materially from the previous periods, adjustments to revenue are recorded. In 2003, management increased its EP-2104R estimate to complete the feasibility program from its original estimate of $9.0 million to $11.2 million, resulting in a reduction in product development revenue of $818,793 in 2003. As of December 2004, management had increased its EP-2104R estimate to complete the feasibility program to $13.2 million, resulting in a further reduction in product development revenue of $1.2 million in 2004, of which $853,138 was recognized in the fourth quarter of 2004. During the second quarter of 2005, the Company increased the estimated cost to complete the feasibility program to $16.1 million from its prior estimate. The increase in the cost to complete the feasibility program was primarily attributed to the additional patient safety monitoring related to amending the Phase IIa clinical trial protocols for EP-2104R announced in July 2005. The impact of increasing the estimated cost to complete the feasibility program resulted in a reduction in product development revenue of $1.5 million during the same period. During the fourth quarter of 2005, the Company lowered the estimate of the cost to complete the feasibility program from $16.1 million to $15.2 million at December 31, 2005 as a result of the increased enrollment rate for this clinical trial. This latest reduction in the estimated total cost of the feasibility program resulted in an increase in product development revenue of $449,944, which was recognized in the fourth quarter of 2005. Revenue under the MRI research collaboration is recognized at the time services are provided and for which Schering AG is obligated to reimburse the Company.

Payments received by the Company from Schering AG in advance of EPIX performing research and development activities are recorded as contract advances.

Royalty revenue

The Company earns royalty revenue pursuant to its sub-license on certain of its patents to Bracco Imaging S.p.A. (Bracco). Royalty revenue is recognized based on actual revenues as reported by Bracco to the Company. Prior to the fourth quarter of 2004, the Company recognized royalty revenue based on royalty reports received from Bracco or on Bracco s estimates, historical revenues and trends when royalty reports from Bracco were not available in a timely manner. In December 2004, Bracco notified the Company that it had overstated non-U.S. royalties to the Company for the period 2001 to 2004, and that Bracco would offset the amount of the overstatement against its payments to the Company, including those triggered by FDA approval of MultiHance in the U.S. Although the Company is disputing Bracco s assertion regarding the overstatement, the Company recognized the impact of Bracco s claimed overstatement by reducing its 2004 royalty revenue. In addition, because the Company no longer believes that it has a reasonable basis to make royalty estimates under the agreement with Bracco, it has, commencing in the fourth quarter of 2004, only recognized royalties from Bracco in the period in which royalty reports are received.

In connection with the execution of the sub-licensing arrangement in September 2001, Bracco made a $4.0 million refundable advance royalty payment to the Company, which was accounted for as deferred revenue. Pursuant to the agreement, Bracco offset a portion of future royalty payments for each future reporting period under a formula basis contained in the agreement until the prepaid royalties were fully

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

exhausted. The deferred revenue balance was $1.7 million at December 31, 2004 and was fully earned at December 31, 2005.

Massachusetts General Hospital (MGH) owns the patents and has exclusively licensed those patents to the Company, which has in turn sub-licensed the patents to Bracco. The Company owes MGH a percentage of all royalties received from its sub-licenses. Royalties paid to MGH, totaled $90,453, $128,801 and $31,354 for the years ended December 31, 2003, 2004 and 2005, respectively.

License fee revenue

The Company records license fee revenues in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). Pursuant to SAB 104, the Company recognizes revenues from non-refundable license fees and milestone payments, not specifically tied to a separate earnings process, ratably over the period during which the Company has a substantial continuing obligation to perform services under the contract. When milestone payments are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligations associated with the payment are completed.

In September 2001, the Company sub-licensed certain patents to Bracco and received a $2.0 million license fee from Bracco. This license fee is included in deferred revenue and is being recorded as revenue ratably from the time of the payment until the expiration of MGH s patent in 2006.

As part of the strategic collaboration agreement the Company entered into with Schering AG in 2000, the Company granted Schering AG an exclusive license to co-develop and market Vasovist worldwide, exclusive of Japan. Later in 2000, the Company amended this strategic collaboration agreement to grant Schering AG exclusive rights to develop and market Vasovist in Japan, with the Company receiving a $3.0 million license fee from Schering AG. This license fee was included in deferred revenue and is being recorded as revenue ratably from the time of the payment until anticipated approval in Japan. The Company will continue to review this estimate and make appropriate adjustments as information becomes available.

Pursuant to a collaboration agreement with Mallinckrodt, Inc, a subsidiary of Tyco/ Mallinckrodt, the Company recorded $4.4 million of deferred revenue that is being recorded as revenue ratably from the time of payment until anticipated approval of Vasovist in the U.S. The Company will continue to review this estimate and make appropriate adjustments as information becomes available.

Reclassification

Certain amounts in the accompanying financial statement have been reclassified to conform to the current year presentation.

Use of Estimates

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

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

Research and Development Expenses

Research and development costs, including those associated with technology, licenses and patents, are expensed as incurred. Research and development costs primarily include employee salaries and related costs, third party service costs, the cost of preclinical and clinical trial supplies and consulting expenses.

In order to conduct research and development activities and compile regulatory submissions, the Company enters into contracts with vendors who render services over an extended period of time, generally one to three years. Typically, the Company enters into three types of vendor contracts; time-based, patient-based or a combination thereof. Under a time-based contract, using critical factors contained within the contract, usually the stated duration of the contract and the timing of services provided, the Company records the contractual expense for each service provided under the contract ratably over the period during which it estimates the service will be performed. Under a patient-based contract, the Company first determines an appropriate per patient cost using critical factors contained within the contract, which include the estimated number of patients and the total dollar value of the contract. The Company then records expense based upon the total number of patients enrolled during the period. On a quarterly basis, the Company reviews both the timetable of services to be rendered and the timing of services actually received. Based upon this review, revisions may be made to the forecasted timetable or the extent of services performed, or both, in order to reflect the Company s most current estimate of the contract.

Loss Per Share

The Company computes loss per share in accordance with the provisions of SFAS No. 128, *Earnings per Share.* Basic net loss per share is based upon the weighted-average number of common shares outstanding and excludes the effect of dilutive common stock issuable upon exercise of stock options and convertible debt. Diluted net loss per share includes the effect of dilutive common stock issuable upon exercise of stock options and convertible debt using the treasury stock method. In computing diluted loss per share, only potential common shares that are dilutive, or those that reduce earnings per share, are included. The exercise of options or convertible debt is not assumed if the result is anti-dilutive, such as when a loss is reported.

In June 2004, the Company completed a sale, pursuant to Rule 144A under the Securities Act of 1933, of $100.0 million of 3% convertible senior notes due 2024 for net proceeds of approximately $96.4 million. Each $1,000 of senior notes is convertible into 33.5909 shares of the Company s common stock representing a conversion price of approximately $29.77 per share if (1) the price of the Company s common stock trades above 120% of the conversion price for a specified time period, (2) the trading price of the senior notes is below a certain threshold, (3) the senior notes have been called for redemption, or (4) specified corporate transactions have occurred. None of these conversion triggers has occurred as of December 31, 2005.

Common stock potentially issuable but excluded from the calculation of dilutive net loss per share for the years ended December 31, 2003, 2004 and 2005 because their inclusion would have been antidilutive consisted of the following:

	2003	2004	2005
Stock options and awards	3,557,499	3,560,478	3,271,909
Shares issuable on conversion of 3% Convertible Senior Notes		3,359,090	3,359,090
	3,557,499	6,919,568	6,630,999

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

Comprehensive Income (Loss)

In accordance with SFAS No. 130, *Reporting Comprehensive Income* (SFAS 130), components of comprehensive income include net income and certain transactions that have generally been reported in the statements of stockholders equity. Other comprehensive income is comprised of unrealized gains or losses on available-for-sale marketable securities.

Employee Stock Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) in accounting for its stock-based compensation plans under the intrinsic value method, rather than the alternative fair value accounting method provided for under SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Under APB 25, because the exercise price of the Company s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

	Year Ended December 31,		
	2003	**2004**	**2005**
Net loss as reported	$ (20,794,552)	$ (20,381,258)	$ (24,310,858)
Less: employee stock-based compensation included in net loss as reported		97,308	
Add: pro forma adjustment for stock-based compensation	(4,040,572)	(6,047,438)	(4,141,790)
Net loss pro forma	$ (24,835,124)	$ (26,331,388)	$ (28,452,648)
Net loss per share, basic and diluted			
As reported	$ (1.09)	$ (0.89)	$ (1.05)
Pro forma	(1.30)	(1.15)	(1.22)
Effect of pro form adjustment	$ (0.21)	$ (0.26)	$ (0.18)

The weighted-average grant date fair value of stock options granted during 2003, 2004 and 2005 was $6.43, $15.66 and $5.56 per share, respectively, on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Options			ESPP		
	Year Ended December 31,					
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
Expected life of option (years)	6.6	7.3	6.9	0.5	0.5	0.5
Expected stock price volatility	0.87	0.85	0.83	0.86	0.84	0.82
Weighted average risk-free interest rate	3.27%	3.25%	3.77%	1.12%	1.40%	3.51%

The effects on 2003, 2004 and 2005 pro forma net loss and net loss per share of expensing the estimated fair value of stock options and common shares issued pursuant to the stock option and stock purchase plans are not necessarily representative of the effects on reported results of operations for future years as options vest over several years.

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued revised SFAS No. 123, *Share-Based Payment An Amendment of FASB Statements No. 123 and 95* , (SFAS 123R). SFAS 123R supersedes APB 25, and amends SFAS No. 95, *Statement of Cash Flows* . Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer permitted. The Company is required to adopt SFAS 123R beginning on January 1, 2006.

SFAS 123R permits public companies to adopt its requirements using one of two methods: (i) the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123R for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date; or the modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption. The Company will be adopting the modified prospective method when applying SFAS 123R.

As permitted by SFAS 123R, the Company currently accounts for share-based payments to employees using APB 25 s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R s fair value method will have a significant impact on the Company s results of operations, although it will have no impact on its overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net loss and net loss per share discussed above.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* , (SFAS 154), a replacement of APB No. 20, *Accounting Changes* , and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* , (SFAS 3). SFAS 154 replaces the provisions of SFAS 3 with respect to reporting accounting changes in interim financial statements. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after June 1, 2005. The Company does not believe the adoption of SFAS 154 will have a material impact on its overall financial position or results of operations.

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

3. Marketable Securities

The estimated fair value of marketable securities is determined based on broker quotes or quoted market prices or rates for the same or similar instruments. The estimated fair value and cost of marketable securities are as follows at December 31:

	2004		2005	
	Fair Value	Cost	Fair Value	Cost
Government-sponsored agency securities	$ 38,237,366	$ 38,364,954	$ 19,559,610	$ 19,584,572
Corporate bonds	38,506,427	38,625,721	25,112,035	25,153,272
Commercial paper	3,991,800	3,991,800	3,980,788	3,980,787
Certificates of deposit	10,340,037	10,340,037	3,573,157	3,573,157
	$ 91,075,630	$ 91,322,512	$ 52,225,590	$ 52,291,788

Maturities of marketable securities classified as available-for-sale by contractual maturity are shown below:

	December 31,	
	2004	2005
Due within one year	$ 47,193,349	$ 48,447,012
Due after one year through two years	43,882,281	3,778,578
	$ 91,075,630	$ 52,225,590

Gross unrealized gains on marketable securities amounted to $2,799 and $2,678 in 2004 and 2005, respectively. Gross unrealized losses on marketable securities amounted to $249,681 and $68,876 in 2004 and 2005, respectively. The aggregate fair value of investments with unrealized losses was $76.7 million and $36.4 million at December 31, 2004 and 2005, respectively. All such investments have been in an unrealized loss position for less than one year, except for a small number of government-sponsored agency securities that had a cumulative unrealized loss of $1,764 and $14,132 at December 31, 2004 and 2005, respectively. The aggregate fair value of investments that have been in an unrealized loss position for a year or greater were $775,044 and $3.8 million at December 31, 2004 and 2005, respectively. The Company has reviewed those investments based on a number of factors, including the reasons for the impairment, compliance with the Company s investment policy, the severity and duration of the impairment and the changes in value subsequent to year end, and has concluded that no other-than-temporary impairment existed as of December 31, 2004 and 2005.

There were no realized gains or losses on marketable securities in 2004 and 2005.

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Property and Equipment

Property and equipment consist of the following:

	December 31, 2004	December 31, 2005
Leasehold improvements	$ 3,607,588	$ 3,880,443
Laboratory equipment	3,568,169	2,669,880
Furniture, fixtures and other equipment	1,716,801	1,052,703
	8,892,558	7,603,026
Less accumulated depreciation and amortization	(6,401,754)	(5,085,167)
	$ 2,490,804	$ 2,517,859

5. Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2004	December 31, 2005
Accrued contractual product development expenses	$ 2,330,849	$ 1,680,790
Accrued compensation	969,925	1,768,330
Other accrued expenses	918,060	860,883
	$ 4,218,834	$ 4,310,003

6. Restructuring Charges

During the fourth quarter of 2005 the Company incurred a restructuring charge related to planned actions that were taken by management to control costs and improve the focus of its operations in order to reduce losses and conserve cash. The Company announced a planned reduction in its workforce by 48 employees, or approximately 50%, in response to the FDA s second approvable letter regarding Vasovist. The reductions, which were completed in January 2006, affected both the research and development and the general and administrative areas of the Company. The Company reported a charge of $971,828 for severance and related benefits as of December 31, 2005. Substantially all payments related to the separation of employment will be completed in the first quarter of 2006.

The Company also expects to incur additional restructuring expenses in 2006 related to facility consolidation and possible sales of assets. The charge for additional restructuring expenses will be recognized when such actions occur. At this time the Company is not able to estimate the amount of additional restructuring expenses.

7. Financing Arrangements

Loan Payable to Strategic Partner

In May 2003, the Company entered into a Non-Negotiable Note and Security Agreement (the Loan Agreement) with Schering AG under which the Company is eligible to borrow up to a total of $15.0 million. The Loan Agreement

carries a variable, market-based interest rate, which was 11.25% and 9.25% at December 31, 2005 and 2004, respectively. The entire $15.0 million amount under the Loan Agreement was available as of December 31, 2005, but was not drawn down by the Company. At

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2004, $15 million was outstanding under the Loan Agreement, which was repaid in January 2005. In January 2006, the Company and Schering AG agreed to terminate the Loan Agreement.

Convertible Debt

In June 2004, the Company completed a sale, pursuant to Rule 144A under the Securities Act of 1933, of $100 million of 3% convertible senior notes due 2024 for net proceeds of approximately $96.4 million. Each $1,000 of senior notes is convertible into 33.5909 shares of the Company s common stock representing a conversion price of approximately $29.77 per share if (1) the price of the Company s common stock trades above 120% of the conversion price for a specified time period, (2) the trading price of the senior notes is below a certain threshold, (3) the senior notes have been called for redemption, or (4) specified corporate transactions have occurred. None of these conversion triggers has occurred as of December 31, 2005. Each of the senior notes is also convertible into the Company s common stock in certain other circumstances. The senior notes bear an interest rate of 3%, payable semiannually on June 15 and December 15, beginning on December 15, 2004. Interest payments of $1.6 million and $3.0 million were made during the years ended December 31, 2004 and 2005, respectively. The senior notes are unsecured and are subordinated to secured debt, including the loan payable to Schering AG.

The Company has the right to redeem the notes on or after June 15, 2009 at an initial redemption price of 100.85%, plus accrued and unpaid interest. Noteholders may require the Company to repurchase the notes at par, plus accrued and unpaid interest, on June 15, 2011, 2014 and 2019 and upon certain other events, including change of control and termination of trading.

In connection with the issuance of the senior notes, the Company incurred $3.65 million of issuance costs, which primarily consisted of investment banker fees and legal and other professional fees. The costs are being amortized as interest expense using the effective interest method over the term from issuance through the first date that the holders are entitled to require repurchase of the senior notes (June 2011). For the years ended December 31, 2004 and 2005, amortization of the issuance costs was $260,188 and $475,115, respectively.

8. Leases

The Company leases office and laboratory space and certain office equipment under operating lease arrangements. The Company s office and laboratory space leases expire in December 2007.

Future minimum commitments under leases with non-cancelable terms of one or more years are as follows at December 31, 2005:

2006	$ 1,303,059
2007	1,319,753
2008	5,184
Total minimum lease payments	$ 2,627,996

Total rental expense amounted to $1,573,643, $1,194,586 and $1,292,157 for 2003, 2004 and 2005, respectively.

9. Stockholders Equity

In January 2002, the Company raised $30.1 million, net of underwriter discounts, commissions and expenses, through the issuance and sale of 2.575 million shares of its common stock pursuant to its effective shelf registration statement, previously filed with the SEC. In August 2003, the Company raised $65.5 million, net of underwriter discounts, commissions and expenses, through the issuance and sale of 4.645 million shares of its common stock pursuant to its effective shelf registration statement.

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

Equity Plans

Equity Incentive Plan

The Company has in place an Amended and Restated 1992 Equity Incentive Plan (the Equity Plan), which provides stock awards to purchase shares of common stock to be granted to employees and consultants. In June 2005, the Company amended the Equity Plan to increase the number of shares reserved for issuance pursuant to future grants by 500,000. The Equity Plan provides for the grant of stock options (incentive and non-statutory), stock appreciation rights, performance shares, restricted stock or stock units, for the purchase of an aggregate of 7,099,901 shares of common stock since the Equity Plan s inception, subject to adjustment for stock-splits and similar capital changes. Awards under the Equity Plan may be granted to officers, employees and other individuals as determined by the Compensation Committee. The Compensation Committee also selects the participants and establishes the terms and conditions of each option or other equity right granted under the Equity Plan, including the exercise price, the number of shares subject to options or other equity rights and the time at which such options become exercisable. The stock options have a contractual term of ten years and generally vest over a period of five years. As of December 31, 2005, 4,379,656 shares of common stock are reserved for issuance under the Equity Plan. Since the inception of the Equity Plan, options to purchase 2,720,245 shares of common stock have been exercised.

Stock option information relating to the Equity Plan is as follows:

					Options Exercisable	
	Options Outstanding	Option Price Range per Share	Weighted Average Exercise Price	Available for Grant	Number	Weighted Average Exercise Price
December 31, 2002	3,671,734	$ 0.42 - $21.63	$ 8.64	580,711	1,450,742	$ 7.65
Granted	643,588	$ 6.36 - $19.87	$ 8.18			
Exercised	(573,737)	$ 0.42 - $15.38	$ 6.09			
Cancelled	(339,086)	$ 5.13 - $19.40	$ 9.49			
December 31, 2003	3,402,499	$ 0.45 - $21.63	$ 8.90	776,209	1,365,079	$ 8.76
Granted	944,430	$ 15.50 - $25.37	$ 20.02			
Exercised	(723,554)	$ 0.45 - $16.50	$ 7.21			
Cancelled	(302,897)	$ 5.13 - $21.54	$ 10.94			
December 31, 2004	3,320,478	$ 0.83 - $25.37	$ 12.25	634,676	1,273,690	$ 9.76
Granted	594,255	$ 6.35 - $17.39	$ 7.30			
Exercised	(75,498)	$ 0.83 - $ 9.13	$ 6.28			
Cancelled	(830,660)	$ 5.13 - $25.37	$ 12.74			
December 31, 2005	3,008,575	$ 4.48 - $24.72	$ 11.29	1,371,081	1,634,890	$ 10.86

1996 Director Stock Option Plan

The Company has in place an Amended and Restated 1996 Director Stock Option Plan (the Director Plan). All of the directors who are not employees of the Company are currently eligible to participate in the Director Plan. In June 2005, the Company amended the Director Plan to increase the number of shares reserved for issuance pursuant to

future grants by 100,000. The number of shares underlying the option granted to each eligible director upon election or re-election is 25,000 shares. Each option becomes exercisable with respect to 8,333 shares on each anniversary date of grant for a period of three years, provided that the option holder is still a director of the Company at the opening of business on such date. In addition, each eligible director is automatically granted an option to purchase 5,000 shares annually during the years in which such director is not up for reelection. Such options become exercisable

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

in full on the first anniversary date of the grant, provided the option holder is still a director of the Company at the opening of business on such date. The term of each option granted under the Director Plan is ten years from the date of grant. The exercise price for the options is equal to the fair value of the underlying shares at the date of grant. As of December 31, 2005, 394,668 shares of common stock are reserved for issuance under the Director Plan. Since the inception of the Director Plan, options to purchase 5,332 shares of common stock have been exercised.

Stock option information relating to the Director Plan is as follows:

					Options Exercisable	
	Options Outstanding	Option Price Range per Share	Weighted Average Exercise Price	Available for Grant	Number	Weighted Average Exercise Price
December 31, 2002	120,000	$ 7.00 - $13.25	$ 9.54	74,688	61,668	$ 10.03
Granted	35,000	$ 11.64	$ 11.64			
December 31, 2003	155,000	$ 7.00 - $13.25	$ 10.01	139,668	86,668	$ 9.74
Granted	85,000	$ 18.92 - $24.95	$ 22.05			
December 31, 2004	240,000	$ 7.00 - $24.95	$ 14.28	54,668	130,001	$ 9.87
Granted	45,000	$ 7.77	$ 7.77			
Cancelled	(21,666)	$ 7.77 - $24.95	$ 20.99			
December 31, 2005	263,334	$ 7.00 - $24.95	$ 12.61	131,334	181,669	$ 12.36

Combined Option Information

The following table summarizes information about options under the Equity Plan and the Director Plan outstanding at December 31, 2005:

	Outstanding			Exercisable	
Range of Exercise Prices	Options Outstanding at December 31, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at December 31, 2005	Weighted Average Exercise Price
$ 4.48 - $ 7.10	704,974	6.13	$ 6.26	383,419	$ 6.08
$ 7.13 - $ 8.75	833,765	6.68	$ 7.84	343,630	$ 8.48
$ 8.78 - $13.75	873,427	4.81	$ 11.17	740,918	$ 11.27
$13.85 - $24.95	859,743	7.68	$ 19.28	348,592	$ 18.37
	3,271,909		$ 11.39	1,816,559	$ 11.01

1996 Employee Stock Purchase Plan

The Company sponsors the Amended and Restated 1996 Employee Stock Purchase Plan (the Purchase Plan) under which employees may purchase shares of common stock at a discount from fair market value at specified dates. Employees purchased 15,958 shares in 2004 at an average price of $14.55 per share and 19,158 shares in 2005 at an average price of $5.43 per share. At December 31, 2005, 16,750 common shares remained available for issuance under the Purchase Plan. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the Code). Rights to purchase common stock under the Purchase Plan are granted at the discretion of the Compensation Committee, which determines the frequency and duration of individual offerings under the Purchase Plan and the dates when stock may be purchased. Eligible employees participate voluntarily and may withdraw from any offering at any time before stock is

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

purchased. Participation terminates automatically upon termination of employment. The purchase price per share of common stock in an offering is 85% of the lesser of its fair market value at the beginning of the offering period or on the applicable exercise date and is paid through payroll deductions. The Purchase Plan terminates in November 2006.

10. Income Taxes

The Company has reported losses since inception and, due to the degree of uncertainty related to the ultimate use of the net operating loss carryforwards, has fully reserved this tax benefit. The Company has the following deferred tax assets as of December 31, 2004 and 2005:

	December 31,	
	2004	**2005**
Deferred tax assets:		
Net operating loss carry forwards	$ 59,256,000	$ 68,646,000
Research and development tax credits	7,406,000	8,381,000
Book over tax depreciation and amortization	2,272,000	2,582,000
Deferred revenue	1,394,000	451,000
Other	198,000	208,000
Total deferred tax assets	$ 70,526,000	$ 80,268,000
Valuation allowance	(70,526,000)	(80,268,000)
Deferred income taxes, net	$ 0	$ 0

As of December 31, 2005, the Company had net operating loss carryforwards for Federal and State income tax purposes of approximately $180.4 million and $121.8 million, respectively, which expire through the year 2025 and 2010, respectively. The valuation allowance increased by $9.7 million during the year the ended December 31, 2005. The tax net operating loss carryforwards differ from the accumulated deficit principally due to temporary differences in the recognition of certain revenue and expense items for financial and tax reporting purposes.

As a result of ownership changes resulting from sales of equity securities, the Company s ability to use the net operating loss carryforwards is subject to limitations as defined in Sections 382 and 383 of the Code. The Company currently estimates that the annual limitation on its use of net operating losses generated through May 31, 1996 will be approximately $900,000. Pursuant to Sections 382 and 383 of the Code, the change in ownership resulting from public equity offerings in 1997 and other subsequent ownership changes may further limit utilization of losses and credits in any one year. The Company is also eligible for research and development tax credits, which can be carried forward to offset federal taxable income. The annual limitation and the timing of attaining profitability may result in the expiration of net operating loss and tax credit carryforwards before utilization.

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EPIX PHARMACEUTICALS, INC.
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The reconciliation of income tax computed at the U.S. federal statutory rate to income tax expense is as follows:

	Years Ended December 31,			Years Ended December 31,		
	2003	2004	2005	2003	2004	2005
Tax at U.S. statutory rate	$ (7,043,000)	$ (6,896,000)	$ (8,251,000)	(33.87)%	(33.84)%	(33.94)%
State taxes, net of federal benefit				0.00%	0.00%	0.00%
Permanent differences, net of federal benefit	26,894	21,629	19,021	0.13%	0.11%	0.08%
Foreign taxes	80,075	99,905	41,991	0.39%	0.49%	0.17%
Operating losses not benefited	7,016,106	6,874,371	8,231,979	33.74%	33.73%	33.86%
Income tax expense	$ 80,075	$ 99,905	$ 41,991	0.39%	0.49%	0.17%

11. Defined Contribution Plan

The Company offers a defined contribution 401(k) plan, which covers substantially all employees. The plan permits participants to make contributions from 1% to 15% of their compensation. Beginning in 1999, the Company began matching up to 3% of employees contributions. During 2003, 2004 and 2005, the Company s match amounted to $200,801, $227,994, and $243,486, respectively.

12. Strategic Alliances and Collaborations

The Company s business strategy includes entering into alliances with companies primarily in the pharmaceutical industry to facilitate the development, manufacture, marketing, sale and distribution of EPIX products.

Schering AG

In June 2000, the Company entered into a strategic collaboration agreement for Vasovist pursuant to which it granted Schering AG an exclusive license to co-develop and market Vasovist worldwide, excluding Japan. In December 2000, the Company amended this strategic collaboration agreement to grant to Schering AG the exclusive rights to develop and market Vasovist in Japan. Generally, each party to the agreement will share equally in Vasovist costs and profits. Under the agreement, the Company will assume responsibility for completing clinical trials and filing for FDA approval in the U.S. Schering AG will lead clinical and regulatory activities for the product outside the U.S. In addition, the Company granted Schering AG an exclusive option to develop and market an unspecified vascular MRI blood pool agent from its product pipeline. In connection with this strategic collaboration and the amendment to its strategic collaboration agreement with Tyco/ Mallinckrodt, as further described below, Schering AG paid the Company an up-front fee of $10.0 million, which the Company then paid to Tyco/ Mallinckrodt. Under the agreement, Schering AG also paid the Company $20.0 million in exchange for shares of the Company s common stock through its affiliate, Schering AG Berlin Venture Corporation, or Schering AG BV. The Company may receive up to an additional $23.3 million in milestone payments under the strategic collaboration agreement, of which up to $1.3 million may be earned upon U.S. product approval. Following commercial launch of Vasovist, the Company will also be entitled to receive a royalty on products sold outside the U.S. and a percentage of Schering AG s operating profit margin on products sold in the U.S.

Also, under the strategic collaboration agreement with Schering AG, the Company has options to acquire certain participation rights with respect to two of Schering AG s MRI imaging products currently

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in clinical trials, SHU555C and Gadomer. The Company is currently entitled to exercise the option for SHU555C on a region-by-region basis for payments which aggregate approximately $20 million. If the Company exercises the SHU555C option, it will enter into a definitive agreement with Schering AG with respect to SHU555C, pursuant to which Schering AG will be responsible for the conduct of all development, marketing and sales activities in connection with SHU555C in return for a royalty on the sales of the product. The SHU555C option will expire in the second quarter of 2007. The Company will be entitled to exercise the option for Gadomer on a region-by-region basis for payments which aggregate approximately $10 million after Schering AG meets certain clinical milestones, and the Company will have 120 days to exercise the option after it becomes exercisable. If the Company exercises the Gadomer option, it will enter into a definitive agreement with Schering AG with respect to Gadomer, pursuant to which the Company will share development costs incurred from the date of the option exercise, as well as profits, equally with Schering AG and the Company will be obligated to make milestone payments to Schering AG aggregating approximately $20 million.

Under the terms of the strategic collaboration agreement for Vasovist, either party may terminate the agreement upon 30 days notice if there is a material breach of the contract. In addition, Schering AG may terminate the agreement at any time on a region-by-region basis or in its entirety, upon six months written notice to the Company; and the Company may terminate the agreement with respect to development of Vasovist in the E.U. at any time upon ninety days written notice to Schering AG, if Schering AG has failed to meet its obligations in connection with the regulatory approval of Vasovist in the E.U.

In May 2003, the Company announced a broad alliance with Schering AG for the discovery, development and commercialization of molecularly-targeted contrast agents for MRI. The alliance is comprised of two areas of collaboration with one agreement providing for exclusive development and commercialization collaboration for EP-2104R, the Company s product candidate for the detection of thrombus, as well as any other product candidate that the Company and Schering AG determine to develop for detection of thrombus using MRI, and the second agreement covering an exclusive research collaboration to discover novel compounds for diagnosing human disease using MRI. Under the first agreement, Schering AG had an option to the late stage development and worldwide marketing rights for EP-2104R, other thrombus imaging agents and for all development candidates emerging from the MRI research collaboration. On July 12, 2006, Schering AG notified the Company that it declined to exercise this option. The second agreement related to the broader research collaboration expires in May 2013 but the on-going research jointly pursued under the research collaboration agreement concluded in May 2006.

Under the terms of the EP-2104R agreement, the Company was responsible for execution of a clinical feasibility program in humans. At the end of the feasibility program, Schering AG had an option to develop and commercialize EP-2104R under which Schering AG would have received an exclusive, worldwide license for EP-2104R and would have become responsible for all further development, manufacturing, marketing and sales. Schering AG made fixed payments to the Company totaling approximately $9.0 million to cover its expenditures in the feasibility program. As a result of Schering AG s decision not to exercise this option, the rights to EP-2104R reverted to the Company.

Under the terms of the MRI three-year joint research agreement, the Company and Schering AG have exclusively combined the Company s existing research programs in the field of diagnosing human disease using MRI to discover novel MRI product candidates for clinical development. Schering AG funds a portion of the Company s related personnel costs and third party research costs of up to $2.0 million per annum. Also under the MRI research agreement, Schering AG has the first option to obtain exclusive, worldwide rights for the product candidates and, upon exercising the option, would become responsible for all future development, manufacturing, marketing and sales. The Company would receive a base royalty on net sales with the option to increase the royalty by participating in development funding. If Schering AG

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NOTES TO FINANCIAL STATEMENTS (Continued)

does not exercise its option, the Company may license the product and Schering AG would receive a base royalty on net sales and milestone payments.

In October 2005, the Company announced that an amendment to the research collaboration agreement had been entered into with Schering AG. This amendment narrows the definition of the field of its collaboration with Schering AG. This research collaboration expired in May 2006. The Company is in discussions, and expects to continue discussions, with Schering AG regarding the disposition of current research programs under this collaboration.

In May 2003, the Company entered into a loan agreement with Schering AG which entitled it to borrow up to $15 million from time to time. The Company has repaid the loan in full and in January 2006, the Company terminated the loan agreement with Schering AG.

On May 8, 2000, the Company granted to Schering AG a worldwide, royalty-bearing license to patents covering Schering AG s development project, Primovist, an MRI contrast agent for imaging the liver, approved in the E.U. in 2004. Under this agreement, Schering AG is required to pay the Company royalties based on sales of products covered by this agreement. This agreement expires upon the last-to-expire patent covered by the agreement unless terminated earlier by either party because of the material breach of the agreement by the other party. Also on May 8, 2000, Schering AG granted the Company a non-exclusive, royalty-bearing license to certain of its Japanese patents. The Company agreed to withdraw its invalidation claim of Schering AG s Japanese patent 1,932,626 in the Japanese Patent Office pursuant to this license agreement. Under this agreement, the Company is required to pay Schering AG royalties based on sales of products covered by this agreement. This agreement expires upon the last-to-expire patent covered by the agreement unless terminated earlier by either party because of the material breach of the agreement by the other party. See Patents and Proprietary Rights. Schering AG had been an opposing party in the Company s European patent case prior to the licensing agreement. On May 9, 2000, the Opposition Division of the European Patent Office maintained the Company s European patent in a slightly amended form. The patent is owned by MGH and is exclusively licensed to the Company. The remaining opposing parties initially elected to appeal the May 9, 2000 decision. However, in September 2001, the Company settled this patent dispute with the opposing parties by entering into a non-exclusive royalty bearing license agreement with Bracco. See EPIX s Business Patents and Proprietary Rights in the accompanying joint proxy statement/ prospectus for further discussion of this settlement.

Tyco/ Mallinckrodt

In June 2000, in connection with the exclusive license that the Company granted to Schering AG, the Company amended its strategic collaboration with Tyco/ Mallinckrodt. The amendment enabled EPIX to sublicense certain technology from Tyco/ Mallinckrodt to Schering AG which allowed EPIX to enter into the strategic collaboration agreement for Vasovist with Schering AG. Pursuant to that amendment, EPIX also granted to Tyco/ Mallinckrodt a non-exclusive, worldwide license to manufacture Vasovist for clinical development and commercial use on behalf of Schering AG in accordance with a manufacturing agreement entered into in June 2000 between Tyco/ Mallinckrodt and Schering AG. In connection with this amendment, the Company paid Tyco/ Mallinckrodt an up-front fee of $10.0 million and are obligated to pay up to an additional $5.0 million in milestone payments, of which $2.5 million was paid following NDA filing in February 2004 and $2.5 million will be paid upon U.S. product approval. The Company will also pay Tyco/ Mallinckrodt a share of its Vasovist operating profit margins in the U.S. and a percentage of the royalty that it receives from Schering AG on Vasovist gross profits outside the U.S.

Daiichi

In March 1996, the Company entered into a development and license agreement with Daiichi pursuant to which it granted Daiichi an exclusive license to develop and commercialize Vasovist in Japan.

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EPIX PHARMACEUTICALS, INC.
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Under this arrangement, Daiichi assumed primary responsibility for clinical development, regulatory approval, marketing and distribution of Vasovist in Japan. The Company retained the right and obligation to manufacture Vasovist for development activities and commercial sale under the agreement. In December 2000, the Company reacquired the rights to develop and commercialize Vasovist in Japan from Daiichi. Under the terms of this reacquisition agreement with Daiichi, the Company agreed to pay Daiichi a total amount of $5.2 million, of which it paid $2.8 million in January 2001 and $2.4 million in December 2003. Daiichi will also receive a royalty from the Company based on net sales of Vasovist in Japan. Simultaneously with its reacquisition from Daiichi of the Vasovist development and marketing rights in Japan, the Company assigned these rights to Schering AG as described above.

MGH

In July 1995, the Company entered into a license agreement with MGH pursuant to which MGH has granted the Company an exclusive worldwide license to the patents and patent applications which relate to Vasovist. The MGH license imposed certain due diligence obligations with respect to the development of products covered by the license, all of which have been fulfilled to date. The MGH license requires the Company to pay royalties on its net sales of products covered by this license, including Primovist, MultiHance and Vasovist. The Company has paid MGH an aggregate of less than $500,000 in royalty payments, primarily related to the sale of Primovist and MultiHance, through the first quarter of 2006 under this license agreement. The license agreement expires on a country-by-country basis when the patents covered by the license agreement expire. For example, the patents covered by this license agreement are currently expected to expire in November 2006, although the life of these patents may be extended. The license agreement does not contain a renewal provision. The Company believes that the expiration of these patents does not compromise its proprietary position with respect to Vasovist because Vasovist is covered by composition of matter patents independent of its license with MGH, which extend into 2015 in the United States although the life of these patents may be extended.

Prince

In November 2003, the Company entered into an intellectual property agreement with Dr. Martin R. Prince, an early innovator in the field of MRA relating to dynamic MRA, which involves capturing MRA images during the limited time, typically 30 to 60 seconds, available for imaging with extracellular agents. Under the terms of the intellectual property agreement, Dr. Prince granted the Company certain discharges, licenses and releases in connection with the historic and future use of Vasovist by the Company and agreed not to sue the Company for intellectual property infringement related to the use of Vasovist. In consideration of Dr. Prince entering into this agreement, the Company agreed to pay him an upfront fee of $850,000 and royalties on sales of Vasovist consistent with a non-exclusive early stage academic license and agreed to deliver to him 132,000 shares of EPIX common stock with a value of approximately $2.3 million based on the closing price of the Company s common stock on the date of the agreement. In addition, the Company agreed to supply Dr. Prince with approximately $140,000 worth of Vasovist.

13. Subsequent Events

Dismissal of class action lawsuit

On January 31, 2006, the U.S. District Court for the District of Massachusetts granted the Company s Motion to Dismiss for Failure to Prosecute the previously disclosed shareholder class action lawsuit against the Company. The dismissal was issued without prejudice after a hearing, which dismissal does not prevent another suit to be brought based on the same claims.

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

14. Quarterly Financial Information (unaudited)

	First Quarter Ended March 31, 2004	Second Quarter Ended June 30, 2004	Third Quarter Ended September 30, 2004	Fourth Quarter Ended December 31, 2004	Total Year
Revenues:					
Product development revenue	$ 2,651,925	$ 1,962,067	$ 2,273,957	$ 706,331	$ 7,594,280
Royalty revenue	688,453	1,009,062	700,601	(1,771,431)(1)	626,685
License fee revenue	283,288	275,175	263,585	3,215,588	4,037,636
Total revenues	3,623,666	3,246,304	3,238,143	2,150,488	12,258,601
Operating expenses:					
Research Development	5,513,267	5,073,265	6,508,418	4,779,041	21,873,991
General & administrative	2,171,976	3,119,630	2,878,916	2,324,855	10,495,377
Total operating expenses	7,685,243	8,192,895	9,387,334	7,103,896	32,369,368
Operating Loss	(4,061,577)	(4,946,591)	(6,149,191)	(4,953,408)	(20,110,767)
Other income, net	203,017	8,576	(246,645)	(135,534)	(170,586)
Income taxes	8,719	20,947	16,676	53,563	99,905
Net loss	$ (3,867,279)	$ (4,958,962)	$ (6,412,512)	$ (5,142,505)	$ (20,381,258)
Weighted average shares, basic and diluted	22,622,249	22,818,822	22,987,878	23,122,088	22,888,673
Net loss per share:					
Basic and diluted	$ (0.17)	$ (0.22)	$ (0.28)	$ (0.22)	$ (0.89)

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EPIX PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

	First Quarter Ended March 31, 2005	Second Quarter Ended June 30, 2005	Third Quarter Ended September 30, 2005	Fourth Quarter Ended December 31, 2005	Total Year
Revenues:					
Product development revenue	$ 1,475,819	$ 314,026	$ 1,297,720	$ 1,107,965	$ 4,195,530
Royalty revenue	444,289	578,321	798,484	512,290	2,333,384
License fee revenue	165,896	165,896	165,894	163,061	660,747
Total revenues	2,086,004	1,058,243	2,262,098	1,783,316	7,189,661
Operating expenses:					
Research Development	5,533,151	5,637,426	5,498,385	4,106,809	20,775,771
General & administrative	2,743,705	2,570,535	2,617,410	2,312,621	10,244,271
Restructuring costs				971,828	971,828
Total operating expenses	8,276,856	8,207,961	8,115,795	7,391,258	31,991,870
Operating Loss	(6,190,852)	(7,149,718)	(5,853,697)	(5,607,942)	(24,802,209)
Other income, net	(64,703)	53,634	193,940	350,471	533,342
Income taxes				41,991	41,991
Net loss	$ (6,255,555)	$ (7,096,084)	$ (5,659,757)	$ (5,299,462)	$ (24,310,858)
Weighted average shares, basic and diluted	23,226,677	23,257,197	23,273,075	23,275,104	23,258,187
Net loss per share:					
Basic and diluted	$ (0.27)	$ (0.31)	$ (0.24)	$ (0.23)	$ (1.05)

(1) Reflects the Company s decision to recognize the full $1.8 million of Bracco s assertion that Bracco had overstated non-U.S. royalties to the Company during the period 2001 to 2004. In addition, the Company believes that it no longer has a reasonable basis to make royalty estimates and will therefore, effective in the fourth quarter of 2004, recognize future royalties from Bracco in the period in which royalty reports are received.

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EPIX PHARMACEUTICALS, INC.
BALANCE SHEETS
(unaudited)

	December 31, 2005	March 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 72,502,906	$ 75,963,558
Available-for-sale marketable securities	52,225,590	42,882,538
Accounts receivable	149,287	94,699
Prepaid expenses and other assets	346,919	479,906
Total current assets	125,224,702	119,420,701
Property and equipment, net	2,517,859	2,107,960
Other assets	2,973,155	3,492,867
Total assets	$ 130,715,716	$ 125,021,528
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,268,325	$ 541,148
Accrued expenses	4,310,003	3,894,527
Contract advances	6,112,549	5,425,318
Deferred revenue	435,861	330,598
Total current liabilities	12,126,738	10,191,591
Deferred revenue	755,647	699,314
Convertible debt	100,000,000	100,000,000
Commitments and Contingencies		
Stockholders equity:		
Preferred Stock, $0.01 par value, 1,000,000 shares authorized; no shares issued		
Common Stock, $0.01 par value, 40,000,000 shares authorized; 23,284,810 shares issued and outstanding at March 31, 2006 and December 31, 2005	232,848	232,848
Additional paid-in-capital	197,311,313	198,104,068
Accumulated deficit	(179,644,632)	(184,171,953)
Accumulated other comprehensive loss	(66,198)	(34,340)
Total stockholders equity	17,833,331	14,130,623
Total liabilities and stockholders equity	$ 130,715,716	$ 125,021,528

See accompanying notes.

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EPIX PHARMACEUTICALS, INC.
STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,	
	2005	**2006**
Revenues:		
Product development revenue	$ 1,475,819	$ 1,082,867
Royalty revenue	444,289	457,778
License fee revenue	165,896	161,597
Total revenues	2,086,004	1,702,242
Operating expenses:		
Research and development	5,533,151	3,992,961
General and administrative	2,743,705	2,338,363
Restructuring costs		289,633
Total operating expenses	8,276,856	6,620,957
Operating loss	(6,190,852)	(4,918,715)
Interest income	845,901	1,304,573
Interest expense	(910,604)	(869,363)
Loss before provision for income taxes	(6,255,555)	(4,483,505)
Provision for income taxes		43,816
Net loss	$ (6,255,555)	$ (4,527,321)
Weighted average shares:		
Basic and diluted	23,226,677	23,284,810
Net loss per share, basic and diluted	$ (0.27)	$ (0.19)

See accompanying notes.

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EPIX PHARMACEUTICALS, INC.
STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31,	
	2005	**2006**
Operating activities:		
Net loss	$ (6,255,555)	$ (4,527,321)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	264,033	409,899
Stock compensation expense	3,419	792,755
Amortization of deferred financing costs	114,861	119,109
Changes in operating assets and liabilities:		
Accounts receivable	(341,637)	54,588
Prepaid expenses and other current assets	(131,053)	(132,987)
Accounts payable	83,261	(727,177)
Accrued expenses	891,834	(415,476)
Contract advances	(150,341)	(687,231)
Deferred revenue	(602,474)	(161,596)
Net cash used in operating activities	(6,123,652)	(5,275,437)
Investing activities:		
Purchases of marketable securities	(17,466,958)	(22,788,633)
Sale or redemption of marketable securities	19,393,321	32,163,543
Increase in other assets		(638,821)
Purchases of fixed assets	(157,888)	
Net cash provided by investing activities	1,768,475	8,736,089
Financing activities:		
Proceeds from loan payable from strategic partner	15,000,000	
Repayment of loan payable to strategic partner	(15,000,000)	
Proceeds from exercises of stock options	437,392	
Net cash provided by financing activities	437,392	
Net increase (decrease) in cash and cash equivalents	(3,917,785)	3,460,652
Cash and cash equivalents at beginning of period	73,364,538	72,502,906
Cash and cash equivalents at end of period	$ 69,446,753	$ 75,963,558
Supplemental cash flow information:		
Cash paid for interest	$ 45,326	$
Cash paid for taxes	$	$ 43,816

See accompanying notes.

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(unaudited)

1. Nature of Business

EPIX Pharmaceuticals, Inc. (EPIX or the Company) discovers and develops innovative pharmaceuticals for imaging that are designed to transform the diagnosis, treatment and monitoring of disease. The Company uses its proprietary Target Visualization Technology[tm] to create imaging agents targeted at the molecular level. These agents are designed to enable physicians to use magnetic resonance imaging (MRI) to obtain detailed information about specific disease processes. MRI has been established as the imaging technology of choice for a broad range of applications, including the identification and diagnosis of a variety of medical disorders. MRI is safe, relatively cost-effective and provides three-dimensional images that enable physicians to diagnose and manage disease in a minimally invasive manner.

The Company is currently developing two products for use in MRI to improve the diagnosis of multiple diseases affecting the body s arteries and veins, collectively known as the vascular system: Vasovist[tm], the Company s novel blood-pool contrast agent for use in magnetic resonance angiography (MRA), which was approved for marketing in all 25 member states of the European Union (E.U.) in October 2005; and EP-2104R for detecting human thrombi, or blood clots, using MRI. The Company has entered into various partnership agreements with Schering AG with respect to Vasovist and other of its product candidates. The Company currently owns all development rights to EP-2104R and intends to pursue a collaboration for the continued development of EP-2104R. The Company has active research programs with respect to products for diagnostic imaging and therapeutic uses.

On April 3, 2006, the Company announced the signing of a definitive merger agreement to acquire Predix Pharmaceuticals Holdings, Inc. (Predix) in a stock transaction valued at approximately $90 million, including the assumption of net debt at closing. In addition, Predix shareholders will be paid a possible milestone payment of $35 million in cash, stock or a combination of both based on the achievement of certain clinical or strategic milestones within a specified period of time. Predix is a privately-held pharmaceutical company focused on the discovery and development of novel, highly-selective, small molecule drugs that target G-Protein Coupled Receptors and ion channels.

2. Basis of Presentation

The unaudited condensed financial statements of EPIX have been prepared in accordance with accounting principles generally accepted in the United States (U.S.) for interim financial information and the instructions to Form 10-Q and the rules of the Securities and Exchange Commission (the SEC or the Commission). Accordingly, they do not include all of the information and footnotes required to be presented for complete financial statements. The accompanying unaudited condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of the interim period ended March 31, 2006 are not necessarily indicative of the results expected for the full fiscal year.

The unaudited condensed financial statements and related disclosures have been prepared with the assumption that users of the unaudited condensed financial statements have read or have access to the audited financial statements for the preceding fiscal year. Accordingly, these unaudited condensed financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2005.

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

3. Significant Accounting Policies

Revenue Recognition

Product development revenue

In June 2000, the Company entered into a strategic collaboration agreement with Schering AG, whereby each party to the agreement shares equally in Vasovist development costs and U.S. operating profits and the Company will receive royalties related to non-U.S. sales. The Company recognizes as revenue the cash consideration received from Schering AG for efforts provided by the Company in excess of the Company s 50% development obligation. This revenue is recognized in the same period in which the costs are incurred. With respect to payments due to Schering AG, if any, in connection with the Vasovist development program, the Company would recognize such amounts as a reduction to revenue at the time Schering AG performs the research and development activities for which the Company is obligated to pay Schering AG.

On a monthly basis, the Company calculates the revenue or reduction to revenue, as the case may be, with respect to the partnership with Schering AG for Vasovist as follows:

The Company calculates its development costs directly related to Vasovist.

The Company obtains cost reports, or an estimate of costs, from Schering AG for costs incurred by Schering AG related to the development of Vasovist during the same period. Where estimates are used, the Company reviews the estimates and records adjustments in the subsequent quarter when the Company receives actual results from Schering AG. To date, there have been no material adjustments.

The Company multiplies its and Schering AG s development costs by approximately 50% based on the contractual allocation of work contemplated under the agreement.

The Company then records the net difference as development revenue if the balance results in a payment to the Company and negative revenue if the balance results in a payment to Schering AG.

The result of this calculation is that the Company records revenue only for amounts it is owed by Schering AG in excess of 50% of development expenses of the project in the particular period and the Company would record a reduction to revenue for any amounts owed to Schering AG in the particular period. To date, the Company has not been required to make any payments to Schering AG.

The additional payments made by Schering AG to the Company represent revenue to the Company because the Company is providing additional services to Schering AG which Schering AG was contractually obligated to perform. For example, the Company performed substantial amounts of the work on behalf of Schering AG required to prepare the regulatory submission to the European regulatory authorities which would otherwise have been Schering AG s responsibility under the agreement. Had the Company not performed these and other additional services, Schering AG would have had to contract a third party to perform the work or Schering AG would have had to perform the work itself.

In May 2003, the Company entered into a development agreement with Schering AG for EP-2104R and a collaboration agreement with Schering AG for MRI research. Under the EP-2104R development agreement, Schering AG agreed to make fixed payments totaling approximately $9.0 million to the Company over a two year period, which began in the second quarter of 2003 and ended in the fourth quarter of 2004, to cover a portion of the Company s expenditures for the EP-2104R feasibility program. The Company recognizes revenue from Schering AG for the feasibility program in proportion to actual cost incurred relative to the estimated total program costs. As estimated total cost to complete a program increases, revenue in the period is adjusted downwards, and conversely, as estimated cost to complete decreases, revenue in the period is adjusted upwards. Total estimated costs of the feasibility program are

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

based on management s assessment of costs to complete the program based upon an evaluation of the portion of the program completed, costs incurred to date, planned program activities, anticipated program timelines and expected future costs of the program. To the extent that estimated costs to complete the feasibility program change materially from the previous periods, adjustments to revenue are recorded in the period. As of March 31, 2006, the estimated cost to complete the EP-2104R feasibility program is $15.2 million, unchanged from the estimate to complete at December 31, 2005. During the first quarter of 2006, the Company completed enrollment in the feasibility program. Revenue under the MRI research collaboration is recognized at the time services are provided for which Schering AG is obligated to reimburse the Company.

Payments received by the Company from Schering AG in advance of EPIX performing research and development activities are recorded as contract advances.

Royalty revenue

The Company earns royalty revenue pursuant to its sub-license on certain of its patents to Bracco Imaging S.p.A. (Bracco). Royalty revenue is recognized based on actual revenues as reported by Bracco to the Company in the period in which royalty reports are received.

Massachusetts General Hospital (MGH) owns the patents that are subject to the Company s agreement with Bracco and has exclusively licensed those patents to the Company, which has in turn sub-licensed the patents to Bracco. The Company owes MGH a percentage of all royalties received from its sub-licenses. Royalties paid to MGH totaled $0 and $66,073 for the three months ended March 31, 2005 and 2006, respectively.

The Company will be entitled to receive a royalty on sales of Vasovist by Schering AG following the commercial launch of the product in the E.U., which began on a country-by-country basis in the second quarter of 2006. The Company will recognize royalty revenue from sales of Vasovist in the E.U. in the quarter when Schering AG reports those sales to the Company.

License fee revenue

The Company records license fee revenue in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104). Pursuant to SAB 104, the Company recognizes revenue from non-refundable license fees and milestone payments, not specifically tied to a separate earnings process, ratably over the period during which the Company has a substantial continuing obligation to perform services under the contract. When milestone payments are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligations associated with the payment are completed.

In September 2001, the Company sub-licensed certain patents to Bracco and received a $2.0 million license fee from Bracco. This license fee is included in deferred revenue and is being recorded as revenue ratably from the time of the payment until the expiration of MGH s patents, which occured in the E.U. in May 2006 and will occur in the U.S. in November 2006.

As part of the strategic collaboration agreement the Company entered into with Schering AG in 2000, the Company granted Schering AG an exclusive license to co-develop and market Vasovist worldwide, exclusive of Japan. Later in 2000, the Company amended this strategic collaboration agreement to grant Schering AG exclusive rights to develop and market Vasovist in Japan, and the Company received a $3.0 million license fee from Schering AG in connection with that amendment. This license fee was included in deferred revenue and is being recorded as revenue ratably from the time of the payment until anticipated approval in Japan. The Company will continue to review this estimate and make appropriate adjustments as information becomes available.

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

Pursuant to a collaboration agreement with Mallinckrodt, Inc., a subsidiary of Tyco/Mallinckrodt, the Company recorded $4.4 million of deferred revenue that is being recorded as revenue ratably from the time of payment until anticipated approval of Vasovist in the U.S. The Company will continue to review this estimate and make appropriate adjustments as information becomes available.

Research and Development Expenses

Research and development costs, including those associated with technology, licenses and patents, are expensed as incurred. Research and development costs primarily include employee salaries and related costs, third party service costs, the cost of preclinical and clinical trial supplies and consulting expenses.

In order to conduct research and development activities and compile regulatory submissions, the Company enters into contracts with vendors who render services over an extended period of time, generally one to three years. Typically, the Company enters into three types of vendor contracts: time-based, patient-based or a combination thereof. Under a time-based contract, using critical factors contained within the contract, usually the stated duration of the contract and the timing of services provided, the Company records the contractual expense for each service provided under the contract ratably over the period during which it estimates the service will be performed. Under a patient-based contract, the Company first determines an appropriate per patient cost using critical factors contained within the contract, which include the estimated number of patients and the total dollar value of the contract. The Company then records expense based upon the total number of patients enrolled during the period. On a quarterly basis, the Company reviews both the timetable of services to be rendered and the timing of services actually received. Based upon this review, revisions may be made to the forecasted timetable or the extent of services performed, or both, in order to reflect the Company s most current estimate of the contract.

Loss Per Share

The Company computes loss per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, *Earnings per Share.* Basic net loss per share is based upon the weighted-average number of common shares outstanding and excludes the effect of dilutive common stock issuable upon exercise of stock options and convertible debt. Diluted net loss per share includes the effect of dilutive common stock issuable upon exercise of stock options and convertible debt using the treasury stock method. In computing diluted loss per share, only potential common shares that are dilutive, or those that reduce earnings per share, are included. The exercise of options or convertible debt is not assumed if the result is anti-dilutive, such as when a loss is reported.

In June 2004, the Company completed a sale, pursuant to Rule 144A under the Securities Act of 1933, of $100.0 million of 3% convertible senior notes due 2024 for net proceeds of approximately $96.4 million. Each $1,000 of senior notes is convertible into 33.5909 shares of the Company s common stock representing a conversion price of approximately $29.77 per share if (1) the price of the Company s common stock trades above 120% of the conversion price for a specified time period, (2) the trading price of the senior notes is below a certain threshold, (3) the senior notes have been called for redemption, or (4) specified corporate transactions have occurred. None of these conversion triggers has occurred as of March 31, 2006.

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

Common stock potentially issuable, but excluded from the calculation of dilutive net loss per share for the three months ended March 31, 2005 and 2006 because their inclusion would have been antidilutive, consisted of the following:

	2005	2006
Stock options and awards	3,774,473	2,486,616
Shares issuable on conversion of 3% Convertible Senior Notes	3,359,090	3,359,090
Total	7,133,563	5,845,706

Comprehensive Loss

Comprehensive loss is comprised of net loss and unrealized gains or losses on the Company s available-for-sale marketable securities. The Company s comprehensive loss for the three months ended March 31, 2005 and 2006 amounted to $6.2 million and $4.5 million, respectively.

Employee Stock Compensation

The Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment An Amendment of FASB Statements No. 123 and 95* (SFAS 123R), beginning January 1, 2006, using the modified prospective transition method. Under the modified prospective transition method, financial statements for periods prior to the adoption date are not adjusted for the change in accounting. Compensation expense is now recognized, based on the requirements of SFAS 123R, for (a) all share-based payments granted after the effective date and (b) all awards granted to employees prior to the effective date that remain unvested on the effective date.

Prior to adopting SFAS 123R, the Company used the intrinsic value method to account for stock-based compensation under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* As a result of the adoption of SFAS 123R, the Company is amortizing the unamortized stock-based compensation expense related to unvested option grants issued prior to the adoption of SFAS 123R. The Company has elected to continue to use the Black-Scholes Option Pricing Model to determine the fair value of options. SFAS 123R also requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas SFAS 123 permitted companies to record forfeitures based on actual forfeitures, which was the Company s historical policy under disclosure requirements of SFAS 123. As a result, the Company has applied an estimated forfeiture rate to remaining unvested awards based on historical experience in determining the expense recorded in the Company s consolidated statement of operations. This estimate will be evaluated quarterly and the forfeiture rate will be adjusted as necessary. The actual expense recognized over the vesting period will only be for those shares that vest during that period. The Company has also elected to recognize compensation cost for awards with pro-rata vesting using the straight-line method.

As a result of adopting the new standard, the Company has recorded $792,755 of stock-based compensation expense for the three months ended March 31, 2006. The stock-based compensation expense included $519,000 in research and development and $273,755 in general and administrative expense for the three months ended March 31, 2006. The compensation expense increased both basic and diluted net loss per share by $0.03. In accordance with the modified-prospective transition method of SFAS 123R, results for prior periods have not been restated. As of March 31, 2006, there was $8.4 million of unrecognized compensation expense related to non-vested market-based share awards that is expected to be recognized over a weighted-average period of 1.9 years.

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

The following table illustrates the effect on net loss and net loss per share for the three months ended March 31, 2005 if the Company had applied the fair value provisions of SFAS 123R to options granted under the Company s stock option plans.

		Three Months Ended March 31, 2005
Net loss as reported	$	(6,255,555)
Add: employee stock-based compensation included in net loss as reported		
Deduct: pro forma adjustment for stock-based compensation		(1,087,809)
Net loss pro forma	$	(7,343,364)
Net loss per share, basic and diluted		
As reported	$	(0.27)
Pro forma		(0.32)
Effect of pro forma adjustment	$	(0.05)

The fair value of each stock option is estimated on the date of grant using the Black-Scholes Option Pricing Model using the assumptions noted in the following table. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. Expected volatility is based on historical volatility data of the Company s stock and comparable companies to the expected option term. The expected forfeiture rate is based on historical experience. The Company estimated the stock option forfeitures based on historical experience. The Company used the simplified method, as prescribed by the Securities and Exchange Commission s Staff Accounting Bulletin No. 107, to calculate the expected term, or life, of options.

	Options	
	Three Months Ended March 31,	
	2005	2006
Expected stock price volatility	84%	70%
Weighted average risk-free interest rate	3.62%	4.62%
Expected forfeiture rate	0.00%	9.00%
Expected life of option (years)	7.0	6.3

The weighted average grant-date fair value of options granted during the three months ended March 31, 2006 was $3.08 per share.

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

The following is a summary of the status of the Company s stock option plans as March 31, 2006 and the stock option activity for all stock option plans during the three months ended March 31, 2006:

	Number of Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005	3,271,909	$ 11.39		
Granted	300,562	4.59		
Exercised				
Cancelled	(1,085,855)	11.55		
Outstanding at March 31, 2006	2,486,616	$ 10.50	6.86	$ 16,745
Exercisable at March 31, 2006	1,299,973	$ 10.81	5.24	$ 400

4. Restructuring Charges

During the three months ended March 31, 2006, the Company incurred an additional restructuring charge of $290,000 related to actions previously announced by management to control costs and improve the focus of the Company s operations in order to reduce losses and conserve cash. The additional restructuring charge included costs to vacate leased office space, which were partly offset by a sublease for a portion of that space, an impairment charge for the remaining net book value for leasehold improvements located within the vacated space as well as excess lab and office equipment in our facilities, and additional severance related costs. The Company is accounting for the restructuring costs in accordance with Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.*

The following table displays the restructuring activity and liability balances:

Balance December 31, 2005	$ 971,828
Restructuring charges for the three months ended March 31, 2006	289,633
Write-offs	(154,502)
Employee related payments	(835,028)
Balance March 31, 2006	$ 271,931

5. Deferred Merger Costs

The Company has recorded $638,821 of deferred merger costs relating to the acquisition of Predix (See Notes 1 and 7). These costs will be included in acquisitions costs upon consummation of the merger.

6. Convertible Debt

In June 2004, the Company completed a sale, pursuant to Rule 144A under the Securities Act of 1933, of $100 million of 3% convertible senior notes due 2024 for net proceeds of approximately $96.4 million. Each $1,000 of senior notes is convertible into 33.5909 shares of the Company s common stock representing a conversion price of approximately $29.77 per share if (1) the price of the Company s common stock trades above 120% of the conversion price for a specified time period, (2) the trading price of the senior notes is below a certain threshold, (3) the senior

notes have been called for redemption, or (4) specified corporate transactions have occurred. None of these conversion triggers has occurred as of March 31, 2006. Each of the senior notes is also convertible into the Company s common stock in certain

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EPIX PHARMACEUTICALS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

other circumstances. The senior notes bear an interest rate of 3%, payable semiannually on June 15 and December 15 of each year, beginning on December 15, 2004. There were no interest payments made during the three months ended March 31, 2005 and 2006. The senior notes are unsecured and are subordinated to secured debt.

The Company has the right to redeem the notes on or after June 15, 2009 at an initial redemption price of 100.85%, plus accrued and unpaid interest. Noteholders may require the Company to repurchase the notes at par, plus accrued and unpaid interest, on June 15, 2011, 2014 and 2019 and upon certain other events, including a change of control and termination of trading, each as defined in the indenture governing the senior notes.

In connection with the issuance of the senior notes, the Company incurred $3.65 million of issuance costs, which primarily consisted of investment banker fees and legal and other professional fees. The costs are being amortized as interest expense using the effective interest method over the term from issuance through the first date that the holders are entitled to require repurchase of the senior notes (June 2011). For the three months ended March 31, 2005 and 2006, amortization of the issuance costs was $114,861 and $119,109, respectively.

7. Subsequent Events

On April 3, 2006, the Company announced the signing of a definitive merger agreement to acquire Predix Pharmaceuticals Holdings, Inc. (Predix) in a stock transaction valued at approximately $90 million, including the assumption of net debt at closing. In addition, Predix shareholders will be paid a possible milestone payment of $35 million in cash, stock or a combination of both based on the achievement of certain clinical or strategic milestones within a specified period of time. Predix is a privately-held pharmaceutical company focused on the discovery and development of novel, highly-selective, small molecule drugs that target G-Protein Coupled Receptors and ion channels.

On April 25, 2006, the Company submitted a Form S-4 Registration Statement to register shares that would be issuable upon the completion of the merger to acquire Predix.

Effective May 5, 2006, Michael J. Astrue resigned as Interim Chief Executive Officer of the Company. Mr. Astrue was appointed to the position in September 2005 after Michael Webb, the former Chief Executive Officer, resigned. Dr. Andrew Uprichard, President of EPIX, will be the Company s principal executive officer pending the closing of the merger with Predix, which is expected to occur by the end of August 2006.

Following the consummation of the merger, Dr. Michael Kauffman, Predix s President and Chief Executive Officer, will become the Chief Executive Officer of the combined company. Dr. Uprichard is expected to remain with the combined company in the role of President.

8. Recent Accounting Pronouncements

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* , (SFAS 154), a replacement of APB No. 20, *Accounting Changes* , and Statement of Financial Accounting Standards No. 3, *Reporting Accounting Changes in Interim Financial Statements* , (SFAS 3). SFAS 154 replaces the provisions of SFAS 3 with respect to reporting accounting changes in interim financial statements. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe the adoption of SFAS 154 will have a material impact on its overall financial position or results of operations.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of Predix Pharmaceuticals Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Predix Pharmaceuticals Holdings, Inc. as of December 31, 2004 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Predix Pharmaceuticals Holdings, Inc. at December 31, 2004 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, the Company s recurring losses from operations and negative cash flows from operations raise substantial doubt about its ability continue as a going concern. Management s plans as to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 29, 2006,
except for Note 15, as to which the date is April 3, 2006

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PREDIX PHARMACEUTICALS HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31		March 31
	2004	2005	2006
			(Unaudited)
	(In thousands, except per share amounts)		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 13,813	$ 5,912	$ 7,939
Marketable securities		1,501	
Prepaid expenses and other current assets	1,037	2,016	2,196
Total current assets	14,850	9,429	10,135
Restricted cash	714	931	934
Property and equipment, net	1,075	1,399	1,368
Other assets	78	40	39
Total assets	$ 16,717	$ 11,799	$ 12,476
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 1,072	$ 2,477	$ 3,456
Accrued expenses	1,538	4,637	4,019
Current portion of deferred revenue		760	1,303
Current portion of capital lease obligations	223	89	61
Current portion of lease abandonment liability	219	152	180
Notes payable			6,602
Total current liabilities	3,052	8,115	15,621
Accrued rent		440	483
Deferred revenue, net of current portion		778	611
Capital lease obligations, net of current portion	127	109	100
Lease abandonment liability, net of current portion	1,068	1,109	1,056
Total liabilities	4,247	10,551	17,871
Stockholders equity (deficit):			
Preferred stock, $0.01 par value; 238,223,800, 275,298,740 and 275,298,740 shares authorized at December 31, 2004, 2005 and March 31, 2006, respectively: 115,838,473, 273,203,492 and 273,203,492 shares issued and outstanding at December 31, 2004, 2005 and March 31, 2006, respectively	1,159	2,732	2,732
Common stock, $0.01 par value; 309,642,245, 338,085,813 and 338,085,813 shares authorized at December 31, 2004 and 2005 and	7	10	10

March 31, 2006, respectively: 662,590, 1,044,059 and 1,044,059 shares issued and outstanding at December 31, 2004 and 2005 and March 31, 2006, respectively			
Additional paid-in capital	98,999	122,200	120,983
Deferred compensation		(2,294)	
Accumulated other comprehensive income	1	(1)	
Accumulated deficit	(87,696)	(121,399)	(129,120)
Total stockholders equity (deficit)	12,470	1,248	(5,395)
Total liabilities and stockholders equity (deficit)	$ 16,717	$ 11,799	$ 12,476

See accompanying notes

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PREDIX PHARMACEUTICALS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31			Three Months Ended March 31	
	2003	2004	2005	2005	2006
				(Unaudited)	
	(In thousands, except per share amounts)				
Revenues:					
Product development revenue	$	$	$ 1,737	$ 73	$ 597
License fee revenue	1,068	13	563	80	187
Total Revenue	1,068	13	2,300	153	784
Costs and expenses:					
Research and development	14,632	16,427	29,351	6,750	7,036
General and administrative	5,782	3,011	7,031	942	1,475
Restructuring	5,350	77	205	21	30
Total costs and expenses	25,764	19,515	36,587	7,713	8,541
Loss from operations	(24,696)	(19,502)	(34,287)	(7,560)	(7,757)
Other income (expense):					
Investment income, net	142	147	614	152	42
Interest expense	(6)	(37)	(30)	(9)	(6)
Net loss	$ (24,560)	$ (19,392)	$ (33,703)	$ (7,417)	$ (7,721)

See accompanying notes

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PREDIX PHARMACEUTICALS HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDER S EQUITY (DEFICIT)

	Preferred Stock		Common Stock		New Common Stock		Class A Common Stock		Additional Paid-in Capital	Deferred Compensation	Notes Receivable	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity (Deficit)
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts							
	(In thousands, except share amounts)														
Balance at December 31, 2002	19,111,135	$ 59,167		$ 15,757		$		$	$ 23,473		$ (676)	$ (40)	$ 30	$ (55,814)	$ 26,140