INTRABIOTICS PHARMACEUTICALS INC /DE
Form S-1
April 14, 2004

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As filed with the Securities and Exchange Commission on April 14, 2004

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

IntraBiotics Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**2834**	**94-3200380**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

2483 East Bayshore Road, Suite 100

Palo Alto, CA 94303
(650) 526-6800
(Address, including zip code, and telephone number, including area code, of the registrant s principal executive offices)

Henry J. Fuchs, M.D.

President and Chief Executive Officer
IntraBiotics Pharmaceuticals, Inc.
2483 East Bayshore Road, Suite 100
Palo Alto, CA 94303
(650) 526-6800
(Name and address, including zip code, and telephone number, including area code, of agent for service)

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

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, 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(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If 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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered(1)	Proposed Maximum Offering Price(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, $0.001 par value	3,450,000	$17.29	$59,650,500	$7,558

(1) Includes 450,000 shares of Common Stock issuable upon exercise of the Underwriters over-allotment option, if any.

(2) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, and based on the average of the high and low prices of the common stock reported on the Nasdaq National Market on April 12, 2004.

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

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated April 14, 2004

3,000,000 Shares
Common Stock

This is a public offering of common stock of IntraBiotics Pharmaceuticals, Inc. We are offering 3,000,000 shares of our common stock. Our common stock is traded on the Nasdaq National Market under the symbol IBPI. On April 12, 2004, the last reported sale price of our common stock on the Nasdaq National Market was $17.02 per share.

Investing in our common stock involves risk. See Risk Factors beginning on page 7 of this prospectus.

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

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to IntraBiotics	$	$

We have granted the underwriters the right to purchase up to 450,000 additional shares of common stock to cover over-allotments.

Deutsche Bank Securities

Piper Jaffray

Lazard

The date of this prospectus is , 2004

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PROSPECTUS SUMMARY

This summary highlights some of the information found in greater detail elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus, including Risk Factors and our financial statements and accompanying notes, before making an investment decision.

Our Company

We are developing novel antimicrobial drugs designed to overcome many of the shortcomings of currently prescribed anti-infectives. These shortcomings result from the wide range of microbes responsible for serious infections and the fact that many microbes have become resistant to current therapies. We have selected our product candidate, iseganan, for development because it kills a broad spectrum of microbes with a low propensity for resistance. Iseganan is currently in clinical development for two indications: the prevention of ventilator-associated pneumonia, or VAP, and the treatment of lung infections associated with cystic fibrosis, or CF. Additionally, we are evaluating the use of iseganan for other types of infection where we believe that its properties may render it more effective than current therapies.

VAP is the most common infection contracted by patients in the intensive care unit. Worldwide, more than one million patients annually are at risk of developing VAP. VAP represents a significant unmet medical need, as there are no drugs approved for its prevention. VAP is caused by aspiration of infectious microbes into the lungs of ventilated patients. Prophylaxis with broad spectrum antimicrobial drugs has been shown to reduce the incidence of VAP, but is not generally used due to concerns over antimicrobial resistance. Iseganan has been granted Fast Track designation by the FDA for this indication and has been accepted for inclusion into the FDA s CMA Pilot 2 Program. In addition, we have established a Special Protocol Assessment, or SPA, in collaboration with the FDA, detailing an agreed-upon pivotal trial design for prevention of VAP that, if successful, will support registration of iseganan for this indication. The SPA requires us to conduct two identical pivotal trials, the first of which is currently enrolling patients. We expect results from this first trial by the end of 2004.

CF is a lethal disease in which patients develop chronic, progressive infections in their lungs, beginning in infancy. In the United States, approximately 30,000 people suffer from CF. Patients are treated with inhaled antibiotics, but efficacy is limited by antimicrobial resistance, narrow antimicrobial spectrum, or both. Most patients die of progressive lung infection and the median survival of CF patients is 33 years of age. Iseganan kills the majority of pathogens that cause lung infection in CF, including multi-drug resistant pathogens. Based on our completed Phase I studies, we believe we have sufficient safety data to submit to the FDA in support of a Phase II study which we plan to initiate in the second half of 2004.

We have chosen to pursue indications for which clinical proof-of-principle exists, but where resistance diminishes the therapeutic value of existing drugs. We believe that targeting indications where antimicrobial drugs have already demonstrated effectiveness may reduce our development risk. Additionally, in contrast to the conventional practice of delivering antibiotics systemically to treat infection, we have focused on conditions where we can deliver iseganan directly to the site or source of disease. We believe that this strategy may optimize efficacy by maximizing drug concentrations where the infection occurs, and reduce potential toxicity by limiting systemic drug exposure. We retain worldwide commercial rights to iseganan for all indications. Our key U.S. patents, which cover the composition of iseganan, expire in 2015.

Background

Two interrelated problems are thwarting efforts to improve the prevention and treatment of infectious disease. First, patients are vulnerable to infection caused by a wide range of microbes. Second, many microbes encountered by patients today are not susceptible to current

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therapies. The result of these problems is that infectious diseases are increasingly difficult to treat and are adding substantial costs to the health care system.

Since the discovery of penicillin more than 50 years ago, many types of antimicrobial drugs have been developed to fight microbial infections. Until recently, these antimicrobial drugs have been highly successful in controlling the morbidity associated with serious infections. In recent years, however, many microbes have developed resistance to currently marketed antibiotics. Once microbes become resistant, infections can become difficult or impossible to treat.

The antibiotic resistance problem is worsening, in part, because of the use of multiple antibiotics to treat individual cases of infection. In order to combat infection, doctors typically prescribe combinations of antibiotics for two reasons. First, many infections can be caused by a broad range of microbial pathogens, while most current antibiotics individually have a narrow spectrum of activity. Second, because the results of diagnostic tests that determine the pathogen(s) causing an infection are often not available in a timely fashion, physicians are frequently forced to prescribe multiple antibiotics to cover the range of possible microbes. As pathogens have evolved to evade the activity of the commonly-prescribed antibiotics, multi-drug resistant strains have proliferated.

Key Features and Benefits of Iseganan

We are developing a novel class of drugs designed to kill a broad range of microbes without engendering resistance. These drugs are derived from a class of antimicrobial peptides known as protegrins that have evolved in mammals and are a natural part of the body s mechanism to kill microbes and fight infection. In contrast, conventional antimicrobial drugs, developed from plants, molds and other non-mammals, are naturally narrower in spectrum and engender resistance. Iseganan is a synthetic protegrin analog that we have optimized to enhance its microbe-killing activity. We believe that four key features of iseganan will translate into important clinical benefits.

Broad Spectrum. Iseganan kills a diverse range of pathogens, including the two major classes of bacteria as well as yeast-like fungi, which are often not naturally susceptible to antibiotics. Treating these three classes of pathogens typically requires two or three antimicrobial drugs. Iseganan is also active against the vast majority of drug-resistant pathogens. We are unaware of any other agent on the market or in clinical development that possesses this breadth of antimicrobial activity.

Low Propensity to Engender Resistance. Iseganan destroys the cell membranes of microbes, thus damaging their structural integrity. Based on tests conducted in the laboratory, iseganan works 100 to 1,000 times faster than conventional antibiotics. Because the cell membrane is a fundamental structure and cannot readily change, and because iseganan destroys membranes so quickly, there is little chance for a microbe to survive iseganan s killing activity and develop resistance. In laboratory experiments designed to engender resistance, organisms have remained susceptible to iseganan s killing effects while developing significant resistance to conventional antibiotics. This has been confirmed in both drug-susceptible, as well as multi-drug resistant, strains of pathogens.

Low Propensity to Engender Cross-Resistance. Cross-resistance, which arises when an organism develops resistance to a second antibiotic upon exposure to a first, unrelated antibiotic, is particularly problematic because it can severely limit the number of viable therapeutic options a physician has to treat a patient. Organisms treated with iseganan have been shown to remain susceptible to the killing effects of other drugs. As a result, we believe that use of iseganan will preserve therapeutic options.

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Safe and Well-Tolerated. Based on our experience to date, iseganan appears to be safe and well-tolerated at therapeutically relevant doses when administered to the oral cavity, the planned route of administration for the prevention of VAP. In addition, we believe that we have sufficient safety data from our completed Phase I studies to support a Phase II study for inhaled iseganan in CF patients.

Iseganan for Ventilator-Associated Pneumonia

We completed a 42-patient, Phase I/ II clinical trial in patients on artificial life support. In this trial, local oral administration of iseganan was safe and resulted in several hundred-fold reductions in levels of microbes in the mouth. Our SPA calls for two identical pivotal trials that will each enroll approximately 900 patients. The primary end point in each trial will be the occurrence of VAP among survivors. In addition, the data from the two trials will be combined and analyzed for VAP-free survival. These end points will form the primary basis for FDA registration. The first pivotal trial has enrolled more than 400 patients to date.

Given that VAP arises through the aspiration of microbes from the mouth into the lungs, decontaminating the mouth using antimicrobial drugs to prevent VAP is an approach that has received significant medical and scientific interest. Since 1984, there have been more than 30 randomized clinical trials using conventional antimicrobial drugs topically applied in the oral cavity. Most of these trials have independently been statistically significant, and, in the aggregate, they have demonstrated reductions in the incidence of VAP of approximately 50%.

Despite these positive results, oral decontamination using conventional antimicrobial drugs generally has not been adopted as a prevention strategy for VAP due to concerns over causing resistance and cross-resistance. We believe that iseganan, due to the features and benefits discussed above, could become an attractive therapeutic option for the prevention of VAP.

Iseganan for Cystic Fibrosis

We have completed four Phase I studies in a total of 41 healthy human volunteers and 81 adult CF patients. We believe that the safety data supports a Phase II study. Preclinical studies suggest that the inhaled dose administered in the Phase I studies is in a therapeutically relevant range. Based on this, we have designed a Phase II study in collaboration with the Cystic Fibrosis Foundation to evaluate the antimicrobial efficacy of inhaled iseganan in patients with CF.

A principal treatment for CF today is an inhaled antibiotic, tobramycin solution for inhalation, known as TOBI®. This drug had annual sales of approximately $170 million worldwide in 2003. Because of resistance to TOBI, it must be administered intermittently, in a schedule that calls for one-month breaks following each month of therapy. During the six months of the year in which patients do not use TOBI, microbes re-accumulate in the patients lungs, and gradually their condition deteriorates. We believe that iseganan represents an attractive treatment option for CF. In particular, because of its low propensity to engender resistance, iseganan may be suitable for continuous, uninterrupted therapy.

Iseganan for Other Indications

We believe that iseganan s pharmacologic properties may make it an attractive therapeutic option for a variety of other indications, including ear infections, acne, folliculitis or other skin infections, and vaginitis. These conditions each are characterized by infections that are caused by a diverse range of microbes not normally susceptible to a single antimicrobial drug, are caused by multi-drug resistant pathogens in which therapeutic options may already be limited and occur in parts of the body that can be directly accessed by iseganan. We are evaluating microbiological efficacy, formulation requirements and market opportunities to enable selection of our next clinical development program.

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Our Management Team

We have assembled a senior management team with prior experience in developing, registering and partnering novel pharmaceutical products. The members of this team, who have more than 50 years of combined experience in the biotechnology and pharmaceutical industries, have been collectively responsible for the successful development and registration of seven new pharmaceutical products. We are also advised by leaders in the fields of pulmonary and critical care medicine, infectious disease and biostatistics. We believe that our collective experience will facilitate the successful development and commercialization of iseganan for multiple indications.

Risks Related to Our Business

We are at an early stage in the development of our company with a limited operating history and have had no revenues derived from operations. We are subject to numerous risks and obstacles, and we have highlighted the most important of them in Risk Factors, beginning on page 7. In particular, we have experienced significant operating losses since our inception, and we expect to continue to incur substantial additional operating losses. If we are unable to develop, receive approval for, or successfully commercialize our lead product candidate, iseganan, we may never be profitable and may have to cease operations.

Corporate Information

We were founded and incorporated in Delaware on January 19, 1994. Our principal offices are located at 2483 East Bayshore Road, Suite 100, Palo Alto, CA 94303, and our telephone number is (650)526-6800. Our website address is www.intrabiotics.com. The information found on our website is not part of this prospectus.

Unless the context requires otherwise, in this prospectus the terms IntraBiotics, we, us and our refer to IntraBiotics Pharmaceuticals, Inc. IntraBiotics and the IntraBiotics logo are trademarks of IntraBiotics Pharmaceuticals, Inc. This prospectus also includes trademarks, trade names and service marks of other companies. Use by us of other parties trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, these other parties and those names or marks are the property of their respective holders.

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The Offering

Common stock offered by IntraBiotics	3,000,000 shares
Common stock to be outstanding after this offering	10,074,258 shares
Use of proceeds	For conducting clinical trials, research and development and general corporate purposes. See Use of Proceeds for more information regarding our planned use of the proceeds from this offering.
Nasdaq National Market symbol	IBPI

The number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of March 31, 2004 and assumes the conversion of all of the outstanding shares of our Series A preferred stock into 1,709,875 shares of common stock. This number excludes:

- 948,987 shares issuable upon exercise of outstanding options at a weighted average exercise price of approximately $7.41 per share;
- 1,262,235 shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of approximately $5.48 per share; and
- 1,252,987 shares available for future grant under our stock plans.

Unless otherwise indicated, all information in this prospectus assumes no exercise of the underwriters over-allotment option.

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Summary Financial Data

The following table sets forth summary financial data for our company. You should read this information together with the financial statements and the notes to those statements appearing elsewhere in this prospectus and the information under Selected Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations. Please see the financial statements and the notes to the statements appearing elsewhere in this prospectus for the determination of the number of shares used in computing the basic and diluted net loss per share.

	Year Ended December 31,		
	2001	2002	2003
	(In thousands, except per share data)		
Statement of Operations Data:			
Operating expenses:			
Research and development	$ 38,034	$ 23,053	$ 7,727
General and administrative	9,202	8,617	5,782
Restructuring and other charges	21,956	6,118	
Arbitration settlement		(3,600)	
Impairment of acquired workforce		1,365	
Total operating expenses	69,192	35,553	13,509
Operating loss	(69,192)	(35,553)	(13,509)
Interest income	2,843	703	166
Interest expense	(1,110)	(459)	
Other income, net	93	856	31
Net loss	(67,366)	(34,453)	(13,312)
Non-cash deemed dividend related to beneficial conversion feature of Series A preferred stock			(1,436)
Non-cash dividends on Series A preferred stock			(182)
Net loss applicable to common stockholders	$(67,366)	$(34,453)	$(14,930)
Basic and diluted net loss per share applicable to common stockholders	$ (27.47)	$ (11.25)	$ (4.01)
Shares used to compute basic and diluted net loss per share applicable to common stockholders	2,453	3,064	3,720

The following table is a summary of our balance sheet as of December 31, 2003. The As Adjusted column reflects our receipt of the estimated net proceeds from the sale of the shares of common stock offered in this offering at an assumed public offering price of $17.02 per share after deducting the estimated underwriting discount and offering expenses payable by us. See Use of Proceeds and Capitalization.

	As of December 31, 2003	
	Actual	As Adjusted
	(In thousands)	
Balance Sheet Data:		

Cash, cash equivalents and short-term investments	$ 26,394	$ 73,890
Working capital	25,424	72,920
Total assets	27,326	74,822
Long-term obligations, less current portion		
Accumulated deficit	(215,199)	(215,199)
Total stockholders equity	25,628	73,124

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RISK FACTORS

An investment in our common stock is risky. You should carefully consider the following risks, as well as the other information contained in this prospectus. If any of the following risks actually occurs, it could harm our business. In that case, the trading price of our common stock could decline, and you might lose all or a part of your investment. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently see as immaterial, may also harm our business. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. Our future financial condition, results of operations and disclosures could be materially affected by the risks and uncertainties discussed below, or otherwise, and historic trends should not be used to anticipate results or trends in future periods.

Risks Related to Our Business

If either of our two pivotal clinical trials of iseganan for the prevention of ventilator-associated pneumonia, or VAP, or any future clinical trials of iseganan for other indications are unsuccessful, we may have to cease operations.

We currently have only one product candidate in late stage clinical trials. We previously completed three Phase III clinical trials of iseganan for the prevention of ulcerative oral mucositis, a complication that develops in certain cancer patients receiving chemotherapy or radiation therapy that results in painful ulcer-like sores in the mouth and throat. All three of these clinical trials failed to meet their primary end points, and we are no longer pursuing iseganan for the prevention of ulcerative oral mucositis. We are currently pursuing iseganan for the prevention of VAP. Enrollment in the first of two pivotal trials commenced in September 2003, and we expect to announce results of this first trial by the end of 2004. The failure of either of these two pivotal trials in meeting their primary end points, or of any other future clinical trials of iseganan for alternative indications, will negatively impact our future operating results and may force us to cease operations. In addition, even if the trials meet their primary end points, iseganan may not be approved, if, for instance, there are significantly more deaths in the treatment group than in the placebo group.

If we fail to complete any clinical trial, or fail to obtain U.S. Food and Drug Administration, or FDA, approval for any product candidate that we develop, acquire or license, we may never achieve profitability and may have to cease operations.

We do not have a drug approved for sale in the United States or any foreign market. We do not know whether we will be successful in developing iseganan for the prevention of VAP or other indications, or in developing, acquiring or licensing any other products and successfully obtaining FDA or foreign approvals for them. We must successfully complete clinical trials and demonstrate manufacturing capability before we can file with the FDA for approval to sell any product in the United States or with foreign regulatory authorities in order to sell in other countries. The FDA could require us to repeat or perform additional clinical trials as a result of its regulatory review. There is no guarantee that foreign regulatory authorities will approve our products on the same data required by the FDA, and, as a result, we may be required to perform additional clinical trials before being approved to sell in foreign markets. Delays in obtaining or failure to obtain regulatory approvals may:

- delay or prevent the successful commercialization of our drug candidate;
- diminish any competitive advantage we may have; and
- defer or decrease our receipt of revenues or royalties.

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The regulatory review and approval process is lengthy, expensive and uncertain. Extensive preclinical and clinical data and supporting information must be submitted to the FDA for each indication to establish safety and effectiveness in order to secure FDA approval. A number of new drugs for certain indications, iseganan for the prevention of oral mucositis included, have shown promising results in early clinical trials, but subsequently failed to establish sufficient safety and efficacy data to obtain necessary regulatory approvals. A number of companies have also suffered significant setbacks in advanced clinical trials, including issues related to the design or conduct of those trials. We have had to re-perform a Phase III clinical trial in the past, following a drug dispensing error by a contract vendor. We have limited experience in obtaining drug approvals. We cannot be certain when, if ever, we will receive these regulatory approvals. If we are unable to demonstrate the safety and efficacy of any drug candidate, we will be unable to obtain the required regulatory approvals, and we will be unable to commercialize a drug candidate and generate product revenue.

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

Difficulties and risks associated with conducting our clinical trials could cause delays in, or prevent us from, receiving approval or successfully commercializing our product, which would materially harm our business.

Planned clinical trials may not begin on time or may need to be restructured after they have begun. Clinical trials can be delayed for a variety of reasons, including:

- competition in recruiting clinical investigators;
- negotiating acceptable clinical trial agreement terms with prospective trial sites;
- obtaining institutional review board approval to conduct a clinical trial at a prospective site;
- recruiting patients to participate in a clinical trial;
- management of data related to our clinical programs;
- the need to repeat clinical trials as a result of inconclusive results or poorly executed testing;
- the placement of a clinical hold on a study;
- the failure of third parties conducting and overseeing the operations of clinical trials to perform their contractual or regulatory obligations in a timely fashion;
- exposure of clinical trial patients to unexpected and unacceptable health risks or noncompliance with regulatory requirements, which may result in suspension of the trial; and
- inability to obtain prompt regulatory review and agreement on key design features of clinical studies.

In addition, there are a number of difficulties and risks associated with clinical trials. These difficulties and risks may result in the failure to receive regulatory approval to sell our product candidates or the inability to commercialize any of our product candidates. The possibility exists that:

- we may discover that a product candidate does not exhibit the expected therapeutic results in humans, causes harmful side effects or has other unexpected characteristics that delay or preclude regulatory approval or limit commercial use if approved;

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the results from early clinical trials may not be predictive of results that will be obtained in expanded, advanced clinical trials;

patients may drop out of our clinical trials;

our clinical trials may not yield a sufficient number of infected patients in the placebo group to provide statistically significant results;

the clinical procedures outlined in our clinical trial protocols may not be properly followed, which could produce inconclusive results or prematurely end such clinical trial;

our clinical trials may produce negative, inconsistent or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials; and

the cost of our clinical trials may be greater than we currently anticipate.

We expect to continue to incur operating losses for the foreseeable future and may never achieve profitability.

We have never generated revenues from product sales and have incurred significant net losses in each year since inception. We incurred net losses of $67.4 million in 2001, $34.5 million in 2002 and $13.3 million in 2003. As of December 31, 2003, our accumulated deficit was approximately $215.2 million. We expect to continue to incur substantial additional losses for the foreseeable future, and we may never become profitable. To date, we have financed our operations primarily through the private sale of equity securities, funds received from a terminated collaboration agreement, the proceeds of equipment financing arrangements, and our initial public offering of common stock in March 2000. We are currently conducting a pivotal trial of iseganan for the prevention of VAP. We are also developing iseganan for cystic fibrosis, or CF, and may develop iseganan for other indications in the future or acquire or license other products.

We will receive revenues from product sales or royalties only if we complete clinical trials with respect to one or more products, receive regulatory approvals and successfully commercialize such products. We do not know whether we will be successful in developing iseganan for our currently planned prevention of VAP indication or other indications, or in acquiring or licensing other products.

We must raise capital to continue our operations, and, if we fail to obtain the capital necessary to fund our operations, we will be unable to develop our drug candidates and may have to cease operations.

We will need to raise additional funds to continue our operations, complete the FDA approval process of iseganan for the prevention of VAP if our trials are successful, commence commercialization if FDA approval is received, and pursue other indications. We do not know whether additional financing will be available when needed or on acceptable terms, if at all. If we are unable to raise additional financing when necessary, we may have to delay our product development efforts or any product acquisitions or be forced to cease operations. Our future liquidity and capital requirements will also depend on many other factors, including:

the timing, cost and progress of our prevention of VAP trials and any other clinical trials we may conduct;

the timing of, and the costs involved in, obtaining regulatory approvals for any product in the United States and other countries;

decisions with respect to strategic alternatives;

the success of our development and commercialization of our product candidates;

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the scope and results of our clinical trials;

advancement of other product candidates into clinical development;

potential acquisition or in-licensing of other products or technologies;

the costs of manufacturing activities;

the costs of commercialization activities, including product marketing, sales and distribution;

the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other intellectual property-related costs, including any possible litigation costs;

the effect of competing technological and market developments; and

our ability to establish and maintain collaborative and other strategic arrangements.

Adequate financing may not be available on terms acceptable to us, if at all. We may continue to seek additional capital through public or private equity offerings, debt financings or collaborative arrangements and licensing agreements.

If the contract research organizations assisting in our clinical trials fail to appropriately manage our clinical trials, the trials could be delayed or could fail, and our results of operations and financial condition would suffer.

We rely on contract research organizations to assist us in managing and monitoring our clinical trials. We have entered into agreements with Amarex, LLC, Orion Clinical Services, Ltd, Advanced Clinical Trials, Inc. and Icon Laboratories, Inc., among others, to provide clinical research services. The investigators and contract research organizations are not our employees, and we cannot control, other than by contract, the amount of resources, including time, that they devote to our product candidates. However, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols that have been approved by regulatory agencies for such trials. We have previously experienced a drug dispensing error by one of our contract research organizations, which adversely affected the results of one of our clinical trials for iseganan in oral mucositis.

The FDA requires us to comply with standards, commonly referred to as good clinical practices, for conducting, recording and reporting clinical trials to assure that data and reported results are credible and accurate and that the rights and confidentiality of trial participants are protected. The FDA may inspect some of our clinical investigational sites, our contract research organizations records and our facility and files to determine if clinical trials are conducted according to good clinical practices. If the FDA determines that a trial is not in compliance with good clinical practices, we may be required to repeat the clinical trial. If our contract research organizations fail to perform in accordance with our agreements with them, we may not complete our clinical programs on time or at all.

In connection with our reliance on our independent clinical investigators and contract research organizations, our clinical trials may be extended, delayed, suspended or terminated for a variety of reasons, including:

the failure of investigators and research organizations to comply with good clinical practice or to meet their contractual duties;

the failure of our independent investigators to devote sufficient resources to the development of our product candidates or to perform their responsibilities with sufficient expertise and care;

our need to replace these third parties for any reason, including for performance reasons or if these third parties go out of business; or

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problems in the quality or accuracy of the data they obtain due to the failure to collect, compile or analyze data appropriately, adhere to clinical protocols or regulatory requirements or for other reasons.

Extensions, delays, suspensions or terminations of our clinical trials as a result of the performance of our independent clinical investigators and contract research organizations will delay, and make more costly, regulatory approval for any product candidates that we may develop. Any change in a contract research organization during an ongoing clinical trial could seriously delay that trial and potentially compromise the results of the trial.

We will be dependent on third-party contract manufacturers for the future production of iseganan and for producing information required to register iseganan with the FDA, if our trials are successful.

We have relied on a single contract manufacturer to manufacture the iseganan bulk drug substance for our pivotal clinical trials. We currently maintain a sufficient inventory of iseganan to complete planned clinical trials. In addition, if no alternate sources of supply are developed, we will depend on this manufacturer to produce iseganan for FDA registration and to produce iseganan for future commercial use if our pivotal trials are successful. In 2003, we received a manufactured lot from this contract manufacturer that we have not yet been satisfied was manufactured in accordance with a validation plan or that related documentation is adequate. Although this lot is not expected to be required for our pivotal clinical trials, it is expected to be used to validate the manufacturing process. If the manufacturer is unable to validate the manufacturing process, produce iseganan and the required information for FDA registration, or produce iseganan for future commercial use on a timely basis and in accordance with set specifications, or we experience similar issues to those experienced on this order, we may not have sufficient quantities of iseganan and sufficient information to meet registration requirements or sufficient quantities of iseganan for future commercial use. We do not currently have any supply agreement with this or any other contract manufacturer to provide iseganan bulk drug substance.

We also rely on a single third-party supplier to produce iseganan formulated drug product for use in our clinical trials. We do not currently have any supply agreement with this third-party supplier. If this supplier is unable or fails to produce the required quantities of iseganan formulated drug product for clinical use or commercial sale on a timely basis, at commercially reasonable prices, and with sufficient purity, we will not have sufficient quantities to complete all of our planned clinical trials, or to meet commercial demand.

The Fast Track designation for development of iseganan may not actually lead to a faster development or regulatory review or approval process and our Special Protocol Assessment approved by the FDA is subject to change.

If a drug is intended for the treatment of a serious or life-threatening condition and the drug demonstrates the potential to address unmet medical needs for this condition, the drug sponsor may apply for FDA Fast Track designation. Marketing applications filed by sponsors of products in Fast Track development may qualify for expedited review under policies or procedures offered by the FDA, but the Fast Track designation does not assure such qualification. We have been granted Fast Track designation from the FDA for iseganan for the prevention of VAP. Iseganan s Fast Track designation may be withdrawn by the FDA if the FDA believes that it is no longer supported by data from our clinical development program. In addition, iseganan s Fast Track designation does not guarantee that we will be able to take advantage of the expedited review procedures and does not increase the likelihood that the FDA will ultimately approve iseganan.

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In September 2003, we formalized an agreed-upon pivotal clinical trial design for iseganan for the prevention of VAP with the FDA through a Special Protocol Assessment, or SPA. The SPA requires us to conduct a second identical pivotal trial. The SPA is subject to change based upon data produced from our pivotal trials, data produced from clinical trials conducted by third parties and other events outside of our control. The SPA does not guarantee that the requirements for approval of our product will not change and does not necessarily increase the likelihood that the FDA will ultimately approve our product for the prevention of VAP.

Development and commercialization of competitive products or new technologies could reduce or prevent sales of any future products that we develop, acquire or license, which could materially harm our business.

We may be unable to compete successfully if other companies develop and commercialize competitive products that are less expensive, more effective, have fewer side effects or are easier to administer than drug candidates that we develop, acquire or license. If we are unable to compete successfully with any future drug candidate, physicians may not prescribe and patients may not buy our drug.

We are aware of a clinical trial in Europe testing the utility of chlorhexidine, an antiseptic approved for gingivitis, also known as Peridex, for use in the prevention of VAP. We are also aware of one medical device product on the market and other medical device products in development for the prevention of VAP. In addition, it is possible that antimicrobial or antiseptic products already approved by the FDA for other indications may be used off-label by physicians for the prevention of VAP. Pharmaceutical companies, biotechnology companies and medical device companies may also develop products in the future that compete with iseganan for the prevention of VAP.

There are two approved pharmaceutical products used for the treatment of CF. TOBI is sold by Chiron Corporation and generated approximately $170 million in sales in 2003. Colistin is sold by several manufacturers, in greater volume in Europe than in the United States. We are aware of two products that are in clinical development for the treatment of CF. Aztreonam is a product already approved for intravenous use in other bacterial infections and is in Phase II testing for the treatment of CF by Corus Pharma, Inc. Doripenem is an experimental agent in Phase I studies sponsored by Peninsula Pharmaceuticals, Inc. Both of these products are active against pseudomonas aeruginosa, the major pathogen in CF.

Many of these companies have substantially greater experience, financial resources and larger research and development staffs than we do. In addition, many of these companies, either alone or together with their collaborative partners, have significantly greater experience than we do in developing products, obtaining regulatory approvals, manufacturing and marketing. We also compete with these organizations and other companies for in-licensing opportunities for future drug candidates, and for attracting scientific and management personnel.

We currently have no sales and marketing organization and, therefore, must develop a sales and marketing organization or, enter into distribution arrangements and marketing alliances, which could require us to give up rights to our product candidates.

Developing the sales force to market and sell products is a difficult, expensive and time-consuming process. We have no experience developing a sales organization and may be unsuccessful if we attempt to do so. If we are unable to develop an internal sales and marketing operation, we may not be able to increase market awareness and sell our product. We may also rely on third-party distributors to distribute our products or enter into marketing alliances to sell our products. We may not be successful in entering into distribution arrangements and marketing alliances with third parties. Our failure to successfully develop a sales organization or

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to enter into these arrangements on favorable terms could delay or impair our ability to commercialize our product candidates and could increase our costs of commercialization. Dependence on distribution arrangements and marketing alliances to commercialize our product candidates will subject us to a number of risks, including:

- we may be required to relinquish important rights to our products or product candidates;
- we may not be able to control the amount and timing of resources that our distributors or collaborators may devote to the commercialization of our product candidates;
- our distributors or collaborators may experience financial difficulties; and
- business combinations or significant changes in a collaborator s business strategy may also adversely affect a collaborator s willingness or ability to complete its obligations under any arrangement.

If physicians, patients, health care payors and the medical community do not accept our products, we may be unable to generate significant revenues, if any, and we may have to cease operations.

Any drug candidate that we develop, acquire or license may not gain market acceptance among physicians, patients, health care payors and the medical community. If any drug candidate fails to achieve market acceptance, we may be unable to successfully market and sell the product, which would limit our ability to generate revenue. The degree of market acceptance of any drug candidate depends on a number of factors, including:

- the belief of the medical community that VAP is a health issue that needs to be addressed;
- demonstration of clinical efficacy and safety;
- cost-effectiveness, in particular with iseganan s anticipated application for the prevention of VAP;
- convenience and ease of administration;
- potential advantage over alternative treatment methods;
- sales, marketing and distribution support; and
- the inability to administer our product in hospitals due to such third parties internal policies and procedures that may deter the use and application of our product to their patients due to concerns of resistance or otherwise.

Physicians will not prescribe our products until such time as clinical data or other factors demonstrate the safety and efficacy of our drugs as compared to other treatments. In practice, competitors may be more effective in marketing their drugs. Even if the clinical safety and efficacy of our product is established, physicians may elect not to prescribe its use. For example, physicians may be reluctant to use our product widely because of concern about developing microbial strains that are resistant to our drugs, or because of the cost of our drug.

The failure to recruit and retain our chief executive officer and other employees may delay our ability to execute our business plan and our results of operations could suffer.

We are highly dependent on our management and technical staff. Competition for personnel is intense. If we lose the services of any of our senior management or technical staff, we may be unable to successfully complete our planned clinical trials. In particular, the loss of the services of Henry J. Fuchs, our President and Chief Executive Officer, could significantly impede our research and development efforts, our relations with potential collaborators and completion of our planned clinical trials. We do not maintain key person life insurance and do not have an

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employment agreement with Dr. Fuchs or our other members of our management and technical staff. In October 2002, we completed a restructuring that included a reduction in force of approximately 70% of our workforce. As of April 12, 2004, we had 12 full-time employees. In order to pursue any future product development, marketing and commercialization, we will need to hire additional qualified scientific personnel to perform research and development and personnel with expertise in clinical testing, government regulation, manufacturing, marketing and finance. We may not be able to attract and retain personnel on acceptable terms given the competition for such personnel among biotechnology, pharmaceutical and other companies.

We rely on consultants to assist us in formulating our research and clinical development strategy. These consultants may have commitments to, or relationships with, other entities that may limit their availability to us. The loss of the services of these personnel may delay our research and development efforts.

The departure of Henry J. Fuchs, our President and Chief Executive Officer, could require us to refund money to holders of our Series A preferred stock.

If we fail to use our reasonable best efforts to retain the services of Henry J. Fuchs, our President and Chief Executive Officer, until the earlier to occur of the unblinding and public announcement of the results of our first pivotal clinical trial for VAP or May 1, 2005, then we must pay to each holder of our Series A preferred stock a one-time payment equal to 15.0% of the applicable holder s aggregate Series A preferred stock purchase price. Based on the number of shares of Series A preferred stock outstanding as of March 31, 2004, our potential exposure for this provision is $487,500. This penalty will not apply if Dr. Fuchs departure is the result of his death, disability or family emergency or if we retain services of an executive officer to replace Dr. Fuchs within 60 days of Dr. Fuchs departure, for reasons other than his death, disability or family emergency, and such replacement is approved by the Board, including the member(s) of our Board designated by Tang Capital Partners.

We will need to increase the size of our organization, and we may experience difficulties in managing growth.

We are a small company with 12 employees as of April 12, 2004. To continue our clinical trials and commercialize our product candidates, we will need to expand our employee base for managerial, operational, financial and other resources. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to:

manage our development efforts effectively;

manage our clinical trials effectively;

integrate additional management, administrative, manufacturing and sales and marketing personnel;

maintain sufficient administrative, accounting and management information systems and controls; and

hire and train additional qualified personnel.

We may not be able to accomplish these tasks, and our failure to accomplish any of them could harm our financial results.

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If we are unable to adequately protect our intellectual property, we may be unable to sell our products or to compete effectively.

We rely on a combination of patents, trade secrets and contractual provisions to protect our intellectual property. If we fail to adequately protect our intellectual property, other companies or individuals may prevent us from selling our products or may develop competing products based on our technology. Our success depends in part on our ability to:

obtain patents;

protect trade secrets;

operate without infringing upon the proprietary rights of others; and

prevent others from infringing on our proprietary rights.

We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary rights are covered by valid and enforceable patents or are effectively maintained as trade secrets.

We expect to protect our proprietary position by filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business. For example, we own two issued U.S. patents and one pending patent application in the United States and several foreign jurisdictions that contain claims covering iseganan. However, the patent position of biopharmaceutical companies involves complex legal and factual questions. We cannot predict the enforceability or scope of any issued patents or those that may issue in the future. Patents, if issued, may be challenged, invalidated or circumvented. In addition, some of our patents have only been filed in a limited number of jurisdictions which may limit our ability to protect our rights in other jurisdictions. We currently do not have any issued patents in Europe or Japan covering iseganan, and we do not know whether any of our pending patent applications will result in the issuance of patents in these jurisdictions. Consequently, if any patents that we own or license from third parties do not provide sufficient protection, our competitive position would be weakened. Furthermore, others may independently develop similar technologies or duplicate any technology that we have developed.

In addition to patents, we rely on trade secrets and proprietary know-how. Our contract manufacturers perform the manufacturing processes covered by these trade secrets. Accordingly, our contract manufacturers and we must maintain confidentiality. We have confidentiality and proprietary information agreements with our contract manufacturers and with our employees. These agreements may not provide meaningful protection or adequate remedies for our technology in the event of unauthorized use or disclosure of confidential and proprietary information.

We may be subject to intellectual property litigation that could be costly and time-consuming and would affect our results of operations and financial condition.

The biotechnology and pharmaceutical industries have been characterized by extensive litigation regarding patents and other intellectual property rights. Although we are not currently a party to any lawsuits, third parties may assert infringement or other intellectual property claims against us. We may have to pay substantial damages, including treble damages for past infringement, if it is ultimately determined that our products infringe a third party s proprietary rights. The defense and prosecution of intellectual property suits, U.S. Patent and Trademark Office interference proceedings and related legal and administrative proceedings in the United States and internationally are costly and time-consuming to pursue and their outcome is uncertain. If we become involved in any of these proceedings, we will incur substantial expense, and the efforts of our technical and management personnel will be significantly diverted. An

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adverse determination may result in the invalidation of our patents, subject us to significant liabilities or require us to seek licenses that may not be available from third parties on satisfactory terms, or at all. Our stock price could decline because of litigation or interference proceedings initiated or threatened against us.

Because there is a risk of product liability associated with our products, we face potential difficulties in obtaining insurance.

Our business exposes us to potential product liability risks inherent in the testing, manufacturing and marketing of human pharmaceutical products, and we may not be able to avoid significant product liability exposure. While we have insurance covering product use in our clinical trials, it is possible that we will not be able to maintain such insurance on acceptable terms or that any insurance obtained will provide adequate coverage against potential liabilities. Our inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or limit the commercialization of any products we develop. A successful product liability claim in excess of our insurance coverage could exceed our net worth.

Currently, we are not aware of any anticipated product liability claims with respect to our product candidates. In the future, an individual may bring a liability claim against us if one of our product candidates causes, or merely appears to have caused, an injury. If we cannot successfully defend ourselves against the product liability claim, we may incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

inability to conduct our clinical trials;

withdrawal of clinical trial participants;

costs of related litigation;

substantial monetary awards to patients;

loss of revenues;

product recalls;

injury to our reputation;

decreased demand for our product candidates; and

the inability to commercialize our product candidates.

Directors, executive officers, principal stockholders and affiliated entities beneficially own approximately 52% of our capital stock and may be able to exert control over our activities, and the results of our operations and financial condition may suffer.

As of March 31, 2004, our directors, executive officers, principal stockholders and affiliated entities beneficially own, in the aggregate, approximately 52% of our outstanding common stock and Series A preferred stock on an as-converted basis. These stockholders, if acting together, will be able to control the outcome of any matter requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions.

The holders of our Series A preferred stock have voting and other rights that they could exercise against your best interests.

The holders of our Series A preferred stock have rights to designate two members of our Board and to vote as a separate class on certain significant corporate transactions. The holders of Series A preferred stock are entitled to receive cumulative annual dividends of 8% of the

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original purchase price of $10,000 per share, payable in common stock. In addition, upon our liquidation or dissolution (including a merger or acquisition), the holders of our Series A preferred stock are entitled to receive a liquidation preference in an amount equal to the greater of (i) $10,000 per share of Series A preferred stock, or approximately $3.25 million based on the 325 shares of Series A preferred stock currently outstanding, plus any declared but unpaid dividends or (ii) the amount that would have been paid had each such share of Series A preferred stock been converted to common stock. The holders of Series A preferred stock also have the right of first refusal to purchase their pro rata portion of any equity securities we propose to offer to any person. Such right of first refusal is subject to certain customary exclusions, including for shares issued pursuant to any options or other stock awards granted to employees, directors or consultants of IntraBiotics, equipment leasing arrangements, debt financings, strategic financings and public offerings that have been approved by the Board. The holders of Series A preferred stock may exercise these rights to the detriment of our common stockholders.

The holders of our Series A preferred stock also have the right at any time to request that we register for resale the shares of our common stock that they acquire upon conversion of their Series A preferred stock or upon exercise of their warrants to purchase our common stock, subject to certain limitations. A registration statement has been filed with the Securities and Exchange Commission and is currently effective for the resale of the shares of common stock issuable upon conversion of our Series A preferred stock and upon the exercise of those warrants. In addition, the holders of our Series A preferred stock may convert their Series A preferred stock into common stock and sell those shares of the common stock acquired upon such conversion in the public market in reliance upon Rule 144, subject in some cases to volume and other limitations. Future sales in the public market of such common stock, or the perception that such sales might occur, could adversely affect the prevailing market price of our common stock and could make it more difficult for us to raise funds through a public offering or private placement of our equity securities.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us more difficult.

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions:

provide for a classified board of directors of which approximately one-third of the directors will be elected each year;

allow the authorized number of directors to be changed only by resolution of the Board;

require that stockholder actions must be effected at a duly called stockholder meeting and prohibit stockholder action by written consent;

establish advance notice requirements for nominations to the Board or for proposals that can be acted on at stockholder meetings;

require the approval from the holders of Series A preferred stock, prior to May 1, 2005, for any merger into or consolidation with any other corporation (other than a wholly-owned subsidiary corporation or for the purposes of changing our domicile) or the completion of any transaction or series of related transactions in which fifty percent or more of our voting power is transferred or the sale, lease or other disposition of all or substantially all of our assets;

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authorize our Board to issue blank check preferred stock to increase the amount of outstanding shares; and

limit who may call stockholder meetings.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders from consummating a merger with, or acquisition of us. Thes