APR 14 2008

ANEMIA

A serious medical condition associated with kidney disease and cancer.

HEMATIDE™

Being studied as the next generation treatment alternative for anemia management.

AFFYMAX

A company dedicated to improving the treatment of serious, life-threatening medical conditions.

AFFYMAX®

2007 ANNUAL REPORT

HEMATIDE™

Hematide, a novel synthetic compound, is being studied as a new, long-acting treatment alternative for the many patients suffering with anemia caused by chror renal failure and anemia induced by chemotherapy. The drug's potential monthly dosing and convenient room temperature storage are among the features that may help differentiate the product in the marketplace, which currently has few competit and represents great opportunity for additional product offerings.

Dialysis

Affymax is evaluating Hematide in two Phase 3 clinical trials in patients with end stage renal disease who are undergoing dialysis. The trials, EMERALD 1 & 2 (Phase 3 Evaluation of Hematide for the Maintenance Treatment of Anemia in End Stage Renal Disease), are being conducted in the United States and Europe and are expected to enroll approximately 1,500 patients. In the trials, safety and efficacy of once-monthly dosing of Hematide is being compared to the safety and efficacy of the more frequently dosed epoetin products.

Pre-dialysis

Affymax is also evaluating Hematide in two Phase 3 clinical trials in patients with earlier stage chronic kidney disease who are not on dialysis. The trials, PEARL 1 & 2 (Phase 3 Evaluation of Hematide for Anemia Correction in Chronic Renal Failure) are also being conducted in the United States and Europe and are expected to enroll approximately 900 patients. In the trials, safety and efficacy of once-monthly dosing of Hematide is being compared to the safety and efficacy of the more frequently dosed darbepoetin alfa product. If the Phase 3 clinical trials prove successful, Affymax plans to use the data in both dialysis and pre-dialysis to submit a New Drug Application with the Food and Drug Administration to seek U.S. approval for Hematide.

Cancer

Hematide is also being evaluated in a Ph dose finding clinical trial in cancer patier with chemotherapy-induced anemia. The was initiated by Affymax's global develop and commercialization partner for Hema Takeda Pharmaceutical Company Limited The study is expected to include approxim 100 prostate, breast or non-small cell lun cancer patients who are anemic and undergoing taxane-containing chemothe In this open-label trial, patients will recei Hematide every three weeks. The trial is expected to provide key information on s pharmacokinetics and preliminary efficac various doses of Hematide, which the companies plan to use to design a later s clinical program.

AFFYMAX

The company's mission is to develop and commercialize novel peptide-based dru candidates to improve the treatment of serious and often life-threatening medical conditions. Affymax's lead product, Hematide™, is in development for the treatme of anemia, one of the largest, most prevalent worldwide health issues which accounts for over $12 billion in sales of ESA treatments. Affymax believes Hematide, if approved, could be an attractive therapeutic alternative in the anem market, which has very few currently marketed ESA options.

Takeda Partnership

In 2006, Affymax entered into collaborations with Takeda Pharmaceutical Company Limited for the worldwide development and commercialization of Hematide. The financial terms were substantial, with Takeda agreeing to pay upfront fees and milestones to Affymax. In addition, the companies agreed to equally share U.S. profits, while Takeda will pay Affymax royalties on ex-U.S. sales of Hematide. The companies also share third-party development expenses in the U.S. with Takeda paying 70 percent and Affymax paying the remaining 30 percent. Under these agreements, Affymax retains primary responsibility for development and commercialization of the product in renal indications in the United States while Takeda has assumed responsibility for global oncology indications and all ex-U.S. renal opportunities.

Commercialization Plans

The structure of the partnership with Takeda confers primary responsibility to Affymax for commercialization of Hematide in renal indications within the United States. Retaining certain commercialization rights was important to Affymax's growth strat for the future: to develop commercial capabilities to target high potential, concentrated markets in the United States and to utilize partnerships and collaborations to reach ex-U.S. and more diverse markets. Indeed, the anemia market associated with renal indicat is significant, but highly concentrated with a select group of key customers. Through clinical trials, major dialysis centers and key thought leaders in nephrology are gaining an understanding anc experience with Hematide as it undergoes late stage developmer

ANEMIA

Anemia is a significant public health problem which afflicts millions of people worldwide. It is a serious complication which is often associated with common chronic diseases such as kidney disease and cancer. Anemia is characterized by a deficiency of red blood cells and hemoglobin that results in a reduced ability of blood to transfer oxygen to tissues. This inefficient oxygen transfer may result in a number of clinical consequences, including weakness or fatigue, shortness of breath and potential heart failure and death. Affymax is addressing anemia associated with chronic renal failure and the use of chemotherapeutic agents in cancer patients in its clinical trials.

Chronic Renal Failure

A common form of chronic anemia occurs in patients with chronic renal failure (CRF), a progressive disease that affects nearly 20 million Americans. Most patients with CRF and end stage renal disease are anemic as their kidneys are unable to produce sufficient levels of erythropoietin, a key factor in the bone marrow's production of red blood cells. Patients who are anemic due to CRF are treated with medications to increase red blood cell production. These drugs may be given up to 3 times per week either by injections under the skin or into a vein. Affymax is investigating Hematide for longer, sustained correction of anemia with convenient, less frequent dosing of patients.

Hematide™ is in Phase 3 clinical trials for Chronic Renal Failure-related Anemia

Cancer

Anemia in cancer patients may be caused by chemotherapy or the cancer itself. Affymax's lead compound, Hematide, is being investigated in an early stage dose-finding clinical trial in patients undergoing chemotherapy. In chemotherapy-induced anemia, patients become anemic when their chemotherapy destroys important cells in the bone marrow responsible for producing red blood cells. Severe fatigue associated with anemia affects approximately 75 percent of all cancer patients undergoing chemotherapy.

Hematide™ is in a Phase 1 clinical trial for Chemotherapy-Induced Anemia

Pure Red Cell Aplasia

PRCA is a serious complication which can ar from treatment with currently marketed recombinant erythropoiesis stimulating age (ESAs) used to treat anemia. With PRCA, a patient develops antibodies to erythropoiet (EPO). These antibodies neutralize the bod own EPO and result in a lack of red blood cell production causing severe, and potenti life-threatening, anemia. While the inciden of PRCA is low, the FDA warns of PRCA risk associated with commercially available EPO based products. To date, no cases of PRCA h been associated with Hematide treatments. Instead, Hematide, given its unique structur is being evaluated to treat PRCA.

Hematide™ is being evaluated in a clinical trial to treat PRCA

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-33213

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

Delaware	**77-0579396**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4001 Miranda Avenue
Palo Alto, CA 94304
(650) 812-8700
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value $0.001 per share	The NASDAQ Stock Market LLC (NASDAQ Global Market)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "large accelerated filer," "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock, $0.001 par value, held by non-affiliates of the registrant as of June 29, 2007 was $235,962,439 (based upon the closing sales price of such stock as reported on the Nasdaq Global Market on such date). Excludes an aggregate of 6,141,894 shares of the registrant's common stock held by officers, directors and affiliated stockholders. For purposes of determining whether a stockholder was an affiliate of the registrant at June 29, 2007, the registrant has assumed that a stockholder was an affiliate of the registrant at June 29, 2007 if such stockholder (i) beneficially owned 10% or more of the registrant's common stock and/or (ii) was affiliated with an executive officer or director of the registrant at June 29, 2007. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of February 15, 2008, the registrant had outstanding 15,144,719 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the Proxy Statement for the 2008 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed with the Commission within 120 days of the end of the fiscal year ended December 31, 2007, are incorporated by reference into Part III of this Report. Except with respect to information specifically incorporated by reference into this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

AFFYMAX, INC.
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This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential" and similar expressions intended to identify forward-looking statements. These forward-looking statements include statements regarding the timing, design and results of our clinical trials and drug development program, the success of our collaboration with Takeda, and the timing and likelihood of the commercialization of Hematide. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Annual Report on Form 10-K under Item 1A "Risk Factors," including risks relating to the continued safety and efficacy of Hematide in clinical development, the potential for once per month dosing and room temperature stability, the timing of patient accrual in ongoing and planned clinical studies, regulatory requirements and approvals, research and development efforts, industry and competitive environment, intellectual property rights and disputes and other matters. Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I.

Item 1. Business.

Overview

We are a biopharmaceutical company developing novel peptide-based drug candidates to improve the treatment of serious and often life-threatening conditions. Our lead product candidate, Hematide™, is designed to treat anemia associated with chronic renal failure and cancer. Anemia is a serious condition in which blood is deficient in red blood cells and hemoglobin. It is common in patients with chronic renal failure, cancer, heart failure, inflammatory diseases and other critical illnesses, as well as in the elderly. If left untreated, anemia may lead to chronic fatigue or increase the risk of other diseases or death. Currently recombinant EPO, or rEPO, is used to manage the anemia of dialysis, pre-dialysis and cancer patients. According to IMS Health Incorporated, rEPO generated $13.5 billion in worldwide revenues for the 12 months ended September 2007, of which we believe approximately $9 billion was generated in the U.S. Of this $9 billion, we estimate that approximately one-half is attributable to use of rEPO in patients with chronic renal failure, and the remainder is attributable to other indications, primarily cancer patients. However, more recent IMS data for the U.S. market reflects an overall decline in the market in 2007 from 2006 and for each currently marketed erythropoiesis stimulating agent, or ESA (PROCRIT, Aranesp and EPOGEN). Further, the greatest decline in sales were for PROCRIT and Aranesp, which we believe are primarily administered to cancer patients, and could continue to decline, resulting in a significantly smaller market for ESAs. Hematide is a synthetic peptide-based ESA, designed to stimulate production of red blood cells. Hematide is designed to be longer acting than currently marketed ESAs in the U.S. and therefore has the potential to offer both better care for patients and reduced cost and complexity for healthcare providers.

We are conducting Phase 3 clinical trials in patients suffering from chronic renal failure, on dialysis and not on dialysis (pre-dialysis). We are conducting four open-label, randomized controlled clinical trials. Of these trials, two trials are being conducted in pre-dialysis patients and are designed to evaluate the safety and efficacy of Hematide compared to darbepoetin alfa to correct anemia and maintain hemoglobin in a corrected range over time. The other two trials are being conducted in dialysis patients and are designed to evaluate the safety and efficacy of Hematide and its ability to maintain hemoglobin levels in a corrected range compared to epoetin alpha or epoetin beta when switched to Hematide. Analysis of efficacy and safety for all of the Phase 3 studies will be based on assessments of non-inferiority to the comparator drugs. The primary efficacy endpoint will be the mean change in hemoglobin from baseline. Each study is planned to continue until the last patient has been treated for 52 weeks. In addition, the assessment of safety will include a composite cardiovascular endpoint from a pooled safety database. The rate of accrual of these cardiovascular events could affect the duration of the studies if the events accrue at a higher or lower rate than estimated.

Hematide is at an earlier stage of development for chemotherapy-induced anemia in comparison to our renal program and as part of our collaboration with Takeda Pharmaceutical Company Limited, or Takeda, Takeda has assumed primary responsibility for regulatory and clinical development activities related to the worldwide oncology program. In 2008, Takeda initiated a Phase 1 clinical trial for the treatment of chemotherapy-induced anemia in prostate, breast, and non-small cell lung cancer patients in the U.S.

In February and June 2006, we entered into two separate agreements with Takeda, the largest pharmaceutical company in Japan, which resulted in a worldwide collaboration to develop and commercialize Hematide. Under our collaboration, the companies will co-develop and co-commercialize Hematide in the U.S. Takeda received an exclusive license to develop and commercialize Hematide outside of the U.S. Beginning January 1, 2007, Takeda was responsible for the first $50 million of third party expenses related to development in pursuit of U.S. regulatory approval of Hematide. Of the first $50 million of third party expenses related to the development in pursuit of U.S. regulatory approval of Hematide to be borne by Takeda, a total of $36.3 million was incurred by both parties through December 31, 2007. We expect that the remaining $13.7 million will be incurred during the first quarter of 2008. Thereafter, Takeda will bear 70% of the third party U.S. development expenses, while we will be responsible for 30% of the expenses. Each company retains responsibility for 100% of its internal development expenses. Under the agreements, Takeda paid us upfront license fees of $122 million and purchased approximately $10 million of our preferred stock. In December 2006, Takeda completed a Phase 1 trial of Hematide in Japan for which Takeda paid us a milestone payment of $10 million in January 2007. Upon the successful achievement of clinical development and regulatory milestones, we are eligible to receive additional payments from Takeda of up to a total of $345 million across all indications, the majority of which relate to the renal program. Further, we may receive from Takeda up to an aggregate of $150 million upon the achievement of certain worldwide annual net sales milestones. We and Takeda will share equally in the net profits and losses of Hematide in the U.S. which include expenses related to the marketing and launch of Hematide. Takeda will pay us royalties based on the annual net sales of Hematide outside the U.S.

Our Lead Product Candidate: Hematide

Hematide is a synthetic peptide-based ESA designed for less frequent dosing compared to currently marketed ESAs in the U.S. It is currently in Phase 3 clinical trials for treatment of anemia associated with chronic renal failure and in earlier stage trials for chemotherapy-induced anemia. In clinical trials in both healthy volunteers and patients, Hematide has demonstrated the ability to stimulate the production of red blood cells. In vivo studies have also demonstrated that Hematide dosing can be less frequent compared to rEPOs currently on the market. The primary toxicology observed to date has been associated with the exaggerated red blood cell production seen at high and

frequent doses, a result similar to that observed with the rEPO class of drugs. To date, over 400 patients have received Hematide in our Phase 1 and 2 clinical studies. The type and frequency of adverse events including serious adverse events associated with Hematide in these clinical trials are similar to those events that have been reported for currently marketed ESAs in studies targeting similar hemoglobin levels and are consistent with those observed in this patient population. Hematide is designed to be dosed once every four weeks, compared to recombinant products sold in the U.S. that are dosed either several times a week, every week to two weeks, or up to every three weeks for some patients. In addition, we believe that Hematide can be further developed to be stable at room temperature, compared to the cold storage conditions needed for recombinant products.

Anemia Background

Anemia, a condition in which the blood is deficient in red blood cells and hemoglobin, is a frequent and serious complication associated with a number of common chronic diseases. Anemia is associated with chronic fatigue and, if left untreated, may increase the risk of other diseases or even death. Red blood cells are normally formed in the circulating blood from precursor cells which are initially present primarily in the bone marrow. These cells are stimulated to divide and differentiate and are mobilized into circulation by EPO, a hormonal factor produced by the kidney. EPO acts by binding to and activating the EPO receptor on precursor cells. The activation of the EPO receptor stimulates the proliferation and maturation of the precursor cells to form red blood cells that contain hemoglobin. Hemoglobin is an iron-containing protein in red blood cells that functions primarily in the transport of oxygen to, and carbon dioxide from, the tissues of the body. Anemia can be caused by conditions such as chronic renal failure, or treatments such as chemotherapy, that result in underproduction of EPO or a muted response to EPO.

Anemia generally exists in men when the hemoglobin level in blood, which is a measure of red blood cells, is less than 12 g/dL, or the hematocrit, which is a ratio of the volume packed red blood cells to the volume of whole blood, is less than 37%, and in women when hemoglobin is less than 11 g/dL or hematocrit is less than 33%. The Food and Drug Administration, or FDA, the medical community and others have recently raised significant safety concerns relating to currently marketed ESAs as a result of reports of increased mortality and side effects from a number of clinical trials. Some of these safety concerns relate to targeting and maintaining high hemoglobin levels for extended periods of time. The FDA recently required revised warnings, including black box warnings, be added to labels of currently marketed ESAs advising physicians to monitor hemoglobin levels and to use the lowest dose of ESA to increase the hemoglobin concentration to the lowest level sufficient to avoid the need for red blood cell transfusions. Black box warnings for currently marketed ESAs also note increased risk of death and serious cardiovascular events when administered to target a hemoglobin of greater than 12 g/dL.

Anemia associated with Chronic Renal Failure. One of the most common forms of chronic anemia is that which occurs in patients with chronic kidney failure. According to the American Journal of Kidney Disease, chronic kidney failure affects as many as 19 million Americans. As kidney function deteriorates due to the underlying disease, the ability of the kidney to produce adequate EPO is impaired, resulting in decreased production of new red blood cells and anemia.

Over time, chronic renal failure usually progresses to irreversible end-stage renal disease, the most severe stage of the disease. End-stage renal disease patients require either lifetime dependence on renal dialysis, a medical procedure in which blood is cleansed of impurities, or a kidney transplant. Patients with end-stage renal disease are nearly always moderately to severely anemic unless treated with an ESA like rEPO. According to the Centers for Medicare and Medicaid Services, or CMS, there are approximately 320,000 end-stage renal disease patients on dialysis in the U.S. served by approximately 4,700 dialysis facilities. Funding and reimbursement for this care are predominately through the Medicare End Stage Renal Disease Program. In 2005, according to the CMS,

reimbursement for many drugs, including ESAs, was at a rate of 106% of the average ESA sales price. This allows the dialysis facilities to realize a profit on the purchase and administration of ESAs, which constitutes an important component of their economic viability.

We estimate that approximately two-thirds of pre-dialysis patients with anemia are not treated with an ESA prior to progression to stage 5, end-stage renal disease, and initiating dialysis. While in the U.S., currently marketed ESAs are indicated for up to every two week dosing in pre-dialysis, these patients often require much less frequent visits to their nephrologists or primary care physicians for treatment of their underlying disease. Because of the incongruity between the optimal dose scheduling of these ESAs and the timing of pre-dialysis patient office visits, we believe that the pre-dialysis market for ESAs is underserved by existing therapy and could be better served with a product that can be dosed once every four weeks.

Anemia associated with Cancer. Anemia in cancer patients may be caused by chemotherapy or the cancer itself. For patients undergoing chemotherapy, the destruction of progenitor stem cells and precursor cells in the bone marrow by chemotherapy often leads to anemia. Severe fatigue associated with anemia affects approximately three-fourths of all cancer patients undergoing chemotherapy. Based on our market research, there are approximately 3 million actively treated cancer patients in the U.S. Of those patients, roughly 1.2 million undergo chemotherapy to treat their cancer and about 65% of chemotherapy patients become anemic. In some cancer patients, such as those with multiple myeloma and acute leukemia, the underlying cancer itself causes anemia. In these patients, the production of and responsiveness to EPO is believed to be reduced by molecules known as cytokines that are produced by or in response to tumors. An oncologist's ability to treat a patient's cancer is often limited by the patient's ability to tolerate the side effects, including anemia, of highly toxic courses of chemotherapy. Better management of chemotherapy induced anemia could lead to better dose optimization of chemotherapy in cancer patients.

Significant safety concerns have been raised relating to the use of ESAs in the oncology setting. The FDA issued a public health advisory re-evaluating the safe use of the ESA class and convened its Oncology Drugs Advisory Committee (ODAC) in May 2007 to consider the mechanism of action of ESAs and to review the effects of ESAs on survival and tumor progression in cancer patients. Use of ESAs has been associated with shortened time to tumor progression in certain cancer patients. The FDA approved revised black box warnings and other safety-related product labeling changes for currently marketed ESAs during 2007. In addition, the FDA is convening another ODAC meeting in March 2008 to review data from more recent clinical trials with breast cancer patients and cervical cancer patients using currently marketed ESAs, and to consider additional action.

Anemia associated with Other Conditions. Anemia can also occur in any person with a chronic disease that causes significant inflammation, infection, or bleeding, such as rheumatoid arthritis or cardiovascular disease, and it can therefore be considered a characteristic disease of the elderly. We are testing Hematide in chronic renal failure and cancer, but are not currently testing Hematide's effectiveness in treating anemia due to other conditions.

Current Therapy and Limitations

According to IMS Health, rEPO generated $13.5 billion in worldwide revenue for the 12 months ended September 2007 of which approximately $9 billion was generated in the U.S. Of the $9 billion in U.S. revenue, we estimate that one half is attributable to use for patients with chronic kidney failure, and the remainder is attributable to other indications, primarily cancer patients. However, more recent IMS data for the U.S. market reflects an overall decline in the market in 2007 from 2006 and for each currently marketed ESA, Procrit, Aranesp and Epogen. Further, the greatest decline in sales were for Procrit and Aranesp, which we believe are primarily administered to cancer patients, and could continue to decline, resulting in a significantly smaller market for ESAs. ESAs, in the form of rEPO

variants, have been used successfully to manage the anemia of dialysis, pre-dialysis and cancer patients. rEPOs are similar, but not necessarily identical, to a patient's naturally occurring EPO. Differences exist among rEPOs with regard to composition and structure. As a result, differences may also exist among rEPOs with regard to frequency of dosing, duration of effect and rate of rise in hemoglobin. Stability in the blood and circulating half-life, which measure the time it takes the compound to disappear from the blood, generally correlate with less frequent dosing. One of our objectives is to develop a product with a duration of effect that results in a well-controlled hemoglobin response while still allowing optimal dosing, ideally once every four weeks.

Since its initial U.S. market introduction in 1989, rEPO has revolutionized the treatment of patients with anemia resulting from chronic diseases. Two current types of ESAs, epoetin alfa and epoetin beta, are biologically engineered hormones produced in mammalian cells by recombinant DNA technology. Both are relatively short-acting forms of rEPO that typically require frequent dosing to obtain a sustained correction of anemia. Darbepoetin alfa, which is marketed by Amgen, Inc., or Amgen, under the trade name Aranesp, is a biologically engineered hormone product closely related to and functionally similar to epoetin alfa. However, darbepoetin alfa has a terminal half-life approximately three times longer than epoetin alfa, as a result of the addition of sialic acid to stabilize the protein. The currently available rEPOs are marketed under a variety of trade names in different territories.

Frequency of Dosing. Currently marketed ESAs are hampered by short duration of effect resulting in the need for frequent dosing. We believe that the need for frequent dosing has limited the use of ESAs in treatment settings such as pre-dialysis, where patient visits for the purpose of treating underlying disease are less frequent than for patients undergoing dialysis multiple times per week. The population of pre-dialysis patients who may benefit from anemia management far outnumbers the population of patients who have reached end-stage renal disease. We believe the requirement for relatively frequent dosing has historically limited the use of ESAs in pre-dialysis and that, with its longer acting profile, Hematide has the potential to expand this market. Although existing ESAs are sometimes given in larger doses in an effort to achieve extended dosing, and despite studies by the manufacturers of these ESAs aimed at extending the dose interval of these products, medical record audit data and oncologist survey response indicate that existing ESAs are still administered to chemotherapy patients once a week to once every two weeks on average. In addition, recent studies by manufacturers of ESAs indicate that the higher levels of hemoglobin associated with larger and more frequent doses result in a statistically significant increase in cardiovascular events.

Pure Red Cell Aplasia. Treatment of patients with rEPO has been shown in rare cases to cause the production of antibodies to both rEPO and naturally-occurring EPO. Typically these antibodies can bind to and neutralize both the rEPO drug and any naturally-occurring EPO in a patient's system. As a result, such patients become increasingly less sensitive to rEPO therapy and can develop a form of anemia called Pure Red Cell Aplasia, or PRCA. This hematological disorder is characterized by severe, transfusion-dependent anemia, a scarcity of reticulocytes and an almost complete absence of red blood cell precursors in otherwise normal bone marrow. Recently, the FDA has required marketers of rEPO in the U.S. to include in their product prescribing information warnings of potential for rEPO-induced PRCA and a description of this adverse reaction. We believe that an ESA that does not cause PRCA and that can be used to treat PRCA will have advantages in the marketplace over rEPOs that can cause PRCA.

Potential Hematide Advantages

Hematide is a relatively small synthetic peptide-based ESA which we are developing for the treatment of anemia in dialysis, pre-dialysis, PRCA and cancer patients. Peptides are composed of amino acids, commonly known as the building blocks of proteins. Typically, a peptide is composed of fewer than 50 amino acids, while a protein contains from 50 to well over 5,000 amino acids. Peptide-

based therapeutics may display certain advantages compared to recombinant proteins, including simplicity and cost of manufacture, and specificity of effect. Further, because they are composed of naturally-occurring amino acids, peptide-based therapeutics theoretically also carry the general advantage of reduced toxicity relative to small molecule drugs. In the past, development of peptide-based drug candidates was often slowed by low potency. A second problem historically associated with peptide-based drugs has been a requirement of frequent dosing in vivo. More recently, however, it has been possible to develop peptide-based drugs with potencies nearly equivalent to recombinant proteins and with less frequent dosing requirements.

Through the use of our technology, Hematide has the potential to require less frequent dosing than currently marketed ESAs in the U.S. As a long-acting ESA, we believe that Hematide may overcome many of the patient care limitations of currently marketed rEPOs in the U.S. We believe that flexibility of dosing based on duration of effect may allow many patients to receive anemia management therapy concurrently with therapy for their underlying disease.

Hematide is being developed for room temperature stability, ease-of-handling, and long shelf life in order to overcome many of the limitations which hamper the cost effectiveness, and thus the physician adoption, of rEPOs.

Our early clinical trials have shown similar positive effects on red blood cell formation when Hematide is given at equivalent doses either intravenously or subcutaneously. These results suggest that Hematide may be equally effective in humans when administered by either route. Additional clinical trials are underway to confirm this observation. We believe it may be easier to use Hematide than some forms of rEPO, which often have different clinical effects when given subcutaneously versus intravenously.

Although Hematide has the erythropoietic activity characteristic of naturally occurring EPO, its amino acid sequence is unrelated to EPO, rEPO or any other known naturally-occurring erythropoietic protein. Because Hematide does not appear to display immunologic cross-reactivity to naturally-occurring EPO, we believe that Hematide will not cause PRCA. We have conducted preclinical studies which have demonstrated that Hematide can stimulate reticulocytes and elevate hemoglobin levels in an animal model of EPO antibody mediated PRCA. An ongoing Phase 2 clinical trial of Hematide in a small number of patients with PRCA has shown supportive results to date. These results suggest that Hematide is not neutralized by antibodies to rEPO and thus may be effective in rescuing patients that have developed PRCA.

Based on preclinical and clinical studies to date, we believe that the risk of developing antibodies to Hematide will be low. Thus far, we have observed that Hematide-induced antibodies do not appear to cross-react with rEPO and do not have any apparent effect on clinical response to the drug.

Hematide Development Program

We are currently conducting multiple Phase 3 clinical trials of Hematide in patients with anemia due to chronic renal failure. Takeda has primary responsibility for the Hematide oncology program and, in January 2008, initiated a Phase 1 clinical trial in chemotherapy-induced anemia patients in the U.S.

To date, over 400 patients have received Hematide in our Phase 1 and 2 clinical studies. We believe the pharmacokinetics and pharmacodynamics of Hematide have been shown from these trials to be appropriate for extended dose intervals and desired drug activity. We anticipate that Hematide will be dosed once every four weeks in most chronic renal failure patients, and every three weeks in cancer patients, coincident with one of the most common chemotherapy dosing frequencies. Data from our ongoing Phase 2 open-label human clinical trials indicate that Hematide induces a consistent, appropriately rapid, prolonged, dose-dependent increase in reticulocytes and hemoglobin. The type and frequency of adverse events, including serious adverse events associated with Hematide, in these clinical

trials appear to be similar to those events that have been reported for currently marketed ESAs in studies targeting similar hemoglobin levels.

Preclinical and Toxicology Studies. Preclinical studies have shown that Hematide, like EPO, acts through activation of the EPO receptor. Furthermore, preclinical in vivo studies have shown that the effects on erythropoiesis are very similar whether Hematide is given intravenously or subcutaneously. We have conducted repeat-dose preclinical toxicology studies lasting as long as nine months, and have incorporated single-dose and repeat-dose studies exploring administration by either intravenous or subcutaneous injection in a variety of models using doses up to several thousand times the estimated monthly clinical dose. The primary toxicology observed to date has been associated with the exaggerated red blood cell production seen at high and/or frequent doses, a result similar to that observed with the rEPO class of drugs.

Chronic Renal Failure

Current Phase 2 Clinical Trials

We are currently conducting multiple Phase 2 clinical trials of Hematide at sites in the U.S. and Europe in dialysis patients, pre-dialysis patients and patients with PRCA. These trials are designed to determine the safety, pharmacodynamics and pharmacokinetics of Hematide when administered to patients suffering from anemia. Our Phase 2 trials are not designed to establish sufficient safety or efficacy to obtain regulatory approval, and no observations from these trials should be taken as conclusive evidence of Hematide's safety and/or efficacy in any patient population.

The primary objectives of our ongoing Phase 2 clinical trials are to evaluate the long-term safety of Hematide. In patients on dialysis whose hemoglobin values have already been corrected by three times a week rEPO therapy, we are seeking to maintain hemoglobin values in the corrected range by administering Hematide once every four weeks. In trials involving pre-dialysis, we are seeking to correct patients' anemia as measured by increased hemoglobin values. Secondary endpoints of our clinical trials include frequency of red blood cell transfusions.

Current Phase 3 Clinical Trials

We are conducting Phase 3 clinical trials in dialysis and pre-dialysis patients suffering from chronic renal failure. Based on our discussions with the FDA on the design of our Phase 3 program, we are conducting four open-label, randomized controlled clinical trials. Of these trials, two trials are being conducted in pre-dialysis patients and are designed to evaluate the safety and efficacy of Hematide compared to darbepoetin alfa to correct anemia and maintain hemoglobin in a corrected range over time. The other two trials are being conducted in dialysis patients and are designed to evaluate the safety and efficacy of Hematide and its ability to maintain hemoglobin levels in a corrected range compared to epoetin alpha or epoetin beta when switched to Hematide. Analysis of efficacy and safety for all of the Phase 3 studies will be based on assessments of non-inferiority to the comparator drugs. The primary efficacy endpoint will be the mean change in hemoglobin from baseline. Each study is planned to continue until the last patient has been treated for 52 weeks. In addition, the assessment of safety will include a composite cardiovascular endpoint from a pooled safety database. The rate of accrual of these cardiovascular events could affect the duration of the studies if the events accrue at a higher or lower rate than estimated.

Chemotherapy-induced Anemia

Hematide is at an earlier stage of development for chemotherapy-induced anemia in comparison to our renal program and as part of our Takeda collaboration, Takeda has assumed primary responsibility for regulatory and clinical development activities related to the worldwide oncology program. In January 2008, Takeda initiated a Phase 1 clinical trial for the treatment of chemotherapy-induced

anemia in prostate, breast, and non-small cell lung cancer patients in the U.S. This multicenter, open-label, repeat dose clinical trial in chemotherapy-induced anemia is designed to enroll approximately 100 non-small cell lung cancer, prostate or breast cancer patients who have relapsed or progressed after previous treatment and who are anemic and receiving a taxane-containing chemotherapy. Patients will be dosed every three weeks (Q3W) until four weeks after discontinuation of their chemotherapy regimen, the occurrence of dose limiting toxicity, documented disease progression, or change in chemotherapy regimen. The trial will evaluate the safety, pharmacokinetics and preliminary efficacy of various doses of Hematide in the correction of anemia. Initial dosing in this trial is based on results from an earlier trial in a more heterogeneous population of cancer patients that we conducted in Europe. This new U.S. trial is planned is designed to aid in the selection of the appropriate dose or doses to be used in this more homogeneous patient population in additional later stage clinical trials.

Research

In addition to Hematide, we have leveraged our drug discovery platform to produce other potential peptide-based therapeutic product candidates. We have discovered, through use of our proprietary technologies, novel peptides which compete with the natural ligand for binding to target receptors and/or which have agonistic or antagonistic activities. The activities of these peptides are being further characterized and optimized in our research labs. For example, we have used our drug discovery capabilities to explore the tissue protective aspects of various peptides in our Innotide program. In addition to a role in erythropoiesis, EPO has been reported to have tissue protective properties that may protect tissues from damage in response to localized insufficiency of blood and oxygen, known as ischemia, or in response to toxic chemotherapy. Some of these reported activities include protection of neural tissues from ischemic stroke and protection of renal tissues from chemotherapeutic drugs. Innotide represents a series of synthetic peptides discovered and developed by us which act through the EPO receptor, and which are being evaluated in preclinical models of stroke, heart attack and chemotherapy induced organ damage. Innotide peptides bind to and appear to differentially activate the EPO receptor. We believe Innotide may have tissue protective properties characteristic of EPO, but potentially without significant erythropoiesis stimulating activity. Other potential properties of Innotide, including its specificity, potency, relatively small size, stability and ability to be modified to modulate its activity, may also constitute advantages.

Manufacturing and Supply

All of our current good manufacturing practices, or GMP, manufacturing is outsourced to third parties with oversight by our internal managers. We have limited non-GMP manufacturing capacity in-house. We rely on third-party manufacturers to produce sufficient quantities of drug substance and product for use in clinical trials. We intend to continue this practice for any future clinical trials and large-scale commercialization of Hematide and for any other potential products for which we retain significant development and commercialization rights. All of our current product candidates are chemically synthesized and peptide-based.

Specifically for Hematide, active pharmaceutical ingredient, or API, has been manufactured by multiple contract manufacturers or CMOs. We intend to establish long term commercial supply agreements with at least two CMOs for manufacture of drug substance. Under our worldwide collaboration with Takeda, we will be responsible, through our CMOs, for the manufacture and supply of all quantities of Hematide API to be used in the development and commercialization of Hematide worldwide.

Final Hematide drug product is currently manufactured as a buffered aqueous solution for intravenous or subcutaneous administration. Takeda has assumed responsibility for final drug product manufacture and control as part of our worldwide collaboration for Hematide.

Intellectual Property

We protect our technology through the use of patents, trade secrets and proprietary know-how. We have more than 20 issued U.S. patents, including claims covering compositions of compounds comprising peptides of a broad genus of ESA peptide sequences, methods of treating EPO disorders using these compounds and methods of synthesizing these types of ESA peptide compounds. We own several pending U.S. patent applications, all of which relate to our core peptide technologies or to particular peptide compounds. Our issued U.S. patent(s) covering Hematide and any U.S. patent(s) that may issue based on pending patent applications containing claims covering Hematide begin expiring no earlier than 2024. We own foreign equivalent patents and patent applications based on our U.S. patents and patent applications. We also retain technical information related to manufacture and analysis of Hematide as trade secrets. We are currently involved in binding arbitration with Johnson & Johnson Pharmaceutical Research & Development, L.L.C., and Ortho-McNeil Pharmaceutical, Inc., or, collectively, J&J, over the ownership of certain patents and applications currently assigned to J&J, three of our issued U.S. patents and a number of foreign patents and patent applications. See "Risk Factors—Risks Related to Our Business" and "Legal Proceedings" elsewhere in this Annual Report on Form 10-K.

We own and have rights to several proprietary peptide screening technologies, including the patented technologies of peptide phage display and peptides-on-plasmids. This technology enables us to identify initial novel peptide sequences and provides information that our scientists can use to design a variety of peptide compounds to optimize bioactivity and produce pharmaceutical candidate compounds having desired properties.

Third-Party Intellectual Property

Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we and our collaborators are developing products. Because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that our product candidates or proprietary technologies may infringe.

We may be exposed to, or threatened with, future litigation by third parties having patent or other intellectual property rights alleging that our product candidates and/or proprietary technologies infringe their intellectual property rights. If one of these patents was found to cover our product candidates, proprietary technologies or their uses, we or our collaborators could be required to pay damages and could be restricted from commercializing our product candidates or using our proprietary technologies unless we or they obtain a license to the patent. A license may not be available to us or our collaborators on acceptable terms, if at all. In addition, during litigation, the patent holder could obtain a preliminary injunction or other equitable right, which could prohibit us from making, using or selling our products, technologies or methods.

There is a substantial amount of litigation involving patent and other intellectual property rights in the biotechnology and biopharmaceutical industries generally. If a third party claims that we or our collaborators infringe its intellectual property rights, we may face a number of issues, including but not limited to:

- infringement and other intellectual property claims which, with or without merit, may be expensive and time-consuming to litigate and may divert our management's attention from our core business;
- substantial damages for infringement, including treble damages and attorneys' fees, which we may have to pay if a court decides that the product or proprietary technology at issue infringes on or violates the third party's rights;

- a court prohibiting us from selling or licensing the product or using the proprietary technology unless the third party licenses its technology to us, which it is not required to do;
- if a license is available from the third party, we may have to pay substantial royalties, fees and/or grant cross licenses to our technology; and
- redesigning our products or processes so they do not infringe, which may not be possible or may require substantial funds and time.

While we have conducted a search of patents issued to third parties, no assurance can be given that such patents do not exist, have not been filed, or could not be filed or issued, which contain claims covering our products, technology or methods. Because of the number of patents issued and patent applications filed in our technical areas or fields, we believe there is a significant risk that third parties may allege they have patent rights encompassing our products, technology or methods.

Research and Development Expenses

We have made substantial investments in research and development. Research and development costs consist of salaries, stock-based compensation, employee benefits, license fees, laboratory supplies, costs associated with clinical trials, including amounts paid to clinical research organizations, other professional services and facility costs. Research and development expenses were $69.4 million, $54.3 million, and $24.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Our Strategic Alliances

June 2006 Development and Commercialization Agreement with Takeda

In June 2006, we entered into a Development and Commercialization Agreement with Takeda to develop and commercialize Hematide worldwide. Under our collaboration, the companies will co-develop and co-commercialize Hematide in the U.S. Takeda received an exclusive license to develop and commercialize Hematide outside of the U.S. As contemplated by this agreement, the February 2006 agreement that we have also entered into with Takeda was harmonized to address the worldwide arrangement between the parties.

We will share responsibility with Takeda for clinical development activities required for U.S. regulatory approval of Hematide. Specifically, we will have primary responsibility for Hematide's clinical development plan and clinical trials in the dialysis and pre-dialysis indications, while Takeda will have primary responsibility in the chemotherapy induced anemia and anemia of cancer indications to the extent any such indication is developed. Beginning January 1, 2007, Takeda was responsible for the first $50 million of third party expenses related to development in pursuit of U.S. regulatory approval of Hematide. Of the first $50 million of third-party expenses related to the development in pursuit of U.S. regulatory approval of Hematide to be borne by Takeda, a total of $36.3 million was utilized by both parties through December 31, 2007. We expect that the remaining $13.7 million will be utilized during the first quarter of 2008. Thereafter, Takeda will bear 70% of the third party U.S. development expenses, while we will be responsible for 30% of the expenses. Each company retains responsibility for 100% of its internal development expenses. Takeda will have primary responsibility and bear all costs for Hematide's clinical development in support of regulatory approval for all territories outside the United States.

Under the June 2006 agreement, Takeda paid an upfront license fee of $105 million, and upon the successful achievement of clinical development and regulatory milestones, we are eligible to receive from Takeda up to an aggregate of $280 million across all indications, the majority of which relate to the renal program. Further, we may receive from Takeda up to an aggregate of $150 million upon the achievement of certain worldwide annual net sales milestones. We and Takeda will share equally in the net profits and losses of Hematide in the United States, which include expenses related to the

marketing and launch of Hematide. Takeda will pay us a variable royalty based on annual net sales of Hematide outside the United States.

We will own and have responsibility for United States NDAs in the dialysis, pre-dialysis, chemotherapy-induced anemia and anemia of cancer indications to the extent any such NDA is filed. Takeda will own and have responsibility for regulatory filings outside the United States. Takeda will also be responsible for creating and maintaining a global safety database.

We will also be responsible, through our contract manufacturers, for the manufacture and supply of all quantities of Hematide API to be used in the development and commercialization of Hematide worldwide. Takeda will be responsible for the fill and finish steps in the manufacture of Hematide worldwide.

The parties have agreed to jointly develop the initial commercial marketing plan for Hematide in the United States pursuant to which we and Takeda will divide Hematide promotional responsibilities in the U.S. We will be primarily responsible for commercialization activities within the dialysis and pre-dialysis markets, and Takeda primarily responsible for oncology-related markets. We and Takeda will jointly decide on promotional responsibility for markets outside of these initial indications. Takeda will control price, terms of sale and booking of sales of Hematide.

With respect to existing third-party license agreements relevant to Hematide, fees and milestones payments related to these existing third-party licenses will be shared between us and Takeda as development expenses, provided that an upfront fee in the amount of $17.6 million to a third-party licensor of certain technology related to Hematide paid in 2006 was the sole responsibility of Affymax. For all territories outside the U.S., any royalty payments to a third party for a license will be borne solely by Takeda and other fees or payments will be borne by us and Takeda jointly.

Either party may terminate the collaboration for material breach by the other party. In addition, Takeda will have the right to terminate the collaboration (a) for certain specified clinical development events or failures, or (b) for convenience effective after the second anniversary upon six months written notice to us. In the event of any termination of the agreement, Takeda will transfer and assign to us all rights to Hematide in the affected territories. In addition, if Takeda terminates the collaboration for convenience prior to the first commercial sale in the U.S. for reasons other than specified clinical development events or failures, then Takeda will pay us a termination fee.

February 2006 Development and Commercialization Agreement with Takeda

In February 2006, we entered into a collaboration with Takeda to develop and commercialize Hematide in Japan. Under our agreement, Takeda obtained the exclusive right to develop and commercialize Hematide in Japan for the treatment of anemia in patients with chronic renal failure and cancer, while we retained the rights to develop and commercialize Hematide in the rest of the world, either alone or with third-party partners. Takeda has granted to us a fully paid, royalty-free, sublicenseable, non-exclusive license under its own related technology to develop and commercialize Hematide in the rest of the world.

Takeda also obtained a right of first negotiation to any backup products for Hematide developed by us or our third-party partners. Specifically, during the first ten years of the agreement, if we develop, or our third-party partners develop within an Affymax collaboration, a product that advances to Phase 2 clinical trials and competes with Hematide in the renal or oncology indications, we are obligated to offer to Takeda the right to develop and commercialize such product in Japan before offering the product opportunity in Japan to any other third party.

Takeda is obligated to use diligent efforts to develop and commercialize Hematide in Japan. The agreement establishes a joint committee to oversee the development, regulatory approval and commercialization of Hematide. While the joint committee will operate by consensus of the parties,

Takeda will generally have the final decision-making authority on matters pertaining to the development and commercialization of Hematide in Japan.

Takeda is responsible for commercializing Hematide in Japan and will have the discretion to set the price of Hematide in Japan. Under the agreement, Takeda will provide us with progress reports on its commercialization activities and we will have the opportunity to review and comment on the significant marketing decisions including strategy and launch dates.

We will provide Takeda with Hematide API and Takeda is responsible for the fill and finish of the product. Our pre-clinical and clinical supply of Hematide API to Takeda is governed under the terms of this agreement, while the supply for Takeda's requirements for commercial quantities of Hematide API will be governed by a separate manufacturing agreement that the parties will enter into prior to the earlier of the Phase 3 clinical trials or the stability studies for Takeda's finished product formulation of Hematide.

Pursuant to this agreement, Takeda has paid us approximately $37 million to date, consisting of $17 million in upfront licensing fees, approximately $10 million equity investment in our Series E preferred stock, and in January 2007, a $10 million cash milestone payment for the completion of the first Phase 1 trial of Hematide in Japan. Upon Takeda's successful achievement of clinical development and regulatory milestones, we may receive from Takeda up to an additional total of $65 million across all indications, the majority of which relate to the renal program, together with royalties based on a percentage of the sales of Hematide in Japan.

Under the agreement, each party will solely own all inventions made by such party alone, and will jointly own all inventions made by the parties jointly, including all intellectual property rights therein. Such solely-owned inventions and jointly-owned inventions will be subject to the cross-licenses between the parties for the development and commercialization of Hematide in each party's territory. We are obligated to maintain our third-party license agreements that may contain technology that is the subject of the license to Takeda under this agreement.

Each party will be responsible for the worldwide filing, prosecution and maintenance (including defense against third-party opposition claims) of patents solely owned by such party and the filing, prosecution and maintenance of jointly-owned patents each in its own territory. The parties will share the responsibility for enforcing patents against third-party infringement, and the allocation of responsibilities and sharing of recoveries will depend on where the claims arise, and which patents are involved. We have the first right, but not the obligation, to defend against patent infringement claims or bring patent opposition claims relating to Hematide in Japan, and Takeda has the backup right to do so. Neither party can settle any patent infringement claim without the prior consent of the other party, if the settlement will negatively affect the other party's rights.

Each party is obligated to indemnify the other party for third-party claims and losses resulting from the development and commercialization activities involving Hematide in its territory, a breach of its representations, warranties or obligations under the agreement, or its willful misconduct or negligent acts, except to the extent such losses are subject to the indemnification obligations of the other party.

Absent early termination, the agreement will expire when all of Takeda's payment obligations expire. Either party may terminate the agreement early upon prior written notice if the other party commits an uncured material breach of the agreement. Takeda also has the option to terminate the agreement early, without cause, upon six months' prior written notice after the second anniversary of the effective date of the agreement. We may convert Takeda's license to be non-exclusive or terminate the agreement entirely if Takeda promotes certain products that compete with Hematide. If Takeda terminates without cause or if we terminate for Takeda's material breach, Takeda will transfer to us the right to develop and commercialize Hematide in Japan.

License, Manufacturing and Supply Agreement with Nektar

In April 2004, we entered into a License, Manufacturing and Supply Agreement with Nektar under which we obtained from Nektar a worldwide, non-exclusive license, with limited rights to grant sublicenses, under certain intellectual property covering pegylation technology to manufacture, develop and commercialize Hematide. The license we obtained consists of a license under intellectual property owned by Nektar and a sublicense under intellectual property owned by Enzon Pharmaceuticals, Inc., or Enzon, licensed to Nektar pursuant to a cross-license agreement between Nektar, Inhale Therapeutic Systems, Inc. and Enzon.

In consideration of the license grant, we agreed to pay royalties on the sales of Hematide. We also agreed to pay milestone payments totaling up to an additional $7 million, plus possible additional milestones in connection with our partnering activities relating to Hematide or merger and acquisition activities.

In July 2006, we paid Nektar a $17.6 million milestone payment triggered by our receipt of a $105 million upfront payment from Takeda.

Under the agreement, we also engaged Nektar for the manufacture and supply of our requirements of bulk poly(ethylene) glycol reagent for the manufacture of Hematide. This relationship is managed by a managing committee formed by representatives from both us and Nektar. Nektar is obligated to engage a third-party manufacturer in the event of Nektar's failure (as defined in the agreement) to supply reagent, but currently Nektar remains our sole-source of these reagents.

This agreement expires, on a country by country basis, upon the expiration of our royalty payment obligations. The agreement may be terminated by either party for the other party's material breach provided that such other party has been given a chance to cure such breach, or by Nektar for our challenge of the validity or enforceability of any patents licensed thereunder.

Marketing and Sales

We currently do not have sales and marketing capabilities. Our business model is to become a fully integrated biopharmaceutical company and we intend to develop commercial capabilities in the renal market in order to co-commercialize Hematide under our collaboration agreements with Takeda. We also intend to enter into other licensing agreements with companies in strategically relevant therapeutic areas to further leverage our capabilities.

Competition

We operate in highly competitive segments of the biotechnology and biopharmaceutical markets. We face competition from many different sources, including commercial pharmaceutical and biotechnology enterprises, academic institutions, government agencies and private and public research institutions. Many of our competitors have significantly greater financial, product development, manufacturing and marketing resources than us. Large pharmaceutical companies have extensive experience in clinical testing and obtaining regulatory approval for drugs. These companies also have significantly greater research capabilities than us. Many universities and private and public research institutes are active in chronic renal failure and oncology research, some in direct competition with us. We also compete with these organizations to recruit scientists and clinical development personnel. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies.

According to IMS Health, rEPO generated $13.5 billion in worldwide revenue for the 12 months ended September 2007 of which approximately $9 billion was generated in the U.S. However, more recent IMS data for the U.S. market reflects an overall decline in the market in 2007 from 2006 and for each currently marketed ESA, PROCRIT, Aranesp and EPOGEN. Further, the greatest decline in

sales were for PROCRIT and Aranesp, which we believe are primarily administered to cancer patients, and could continue to decline, resulting in a significantly smaller market for ESAs. Of the $9 billion in U.S. revenue, the leaders, PROCRIT, marketed by J&J, and Aranesp and EPOGEN, both marketed by Amgen, represented the entire market. Aranesp, introduced in 2001, is rapidly gaining market share, particularly in the oncology market. In late 2005, U.S. quarterly sales of Aranesp surpassed those of PROCRIT. Aranesp is approved for once-monthly dosing for treatment of anemia in pre-dialysis patients in Europe. In the U.S., Amgen reportedly is in the process of seeking approval for once-monthly dosing of Aranesp for treatment of anemia in pre-dialysis patients. In 2005, Amgen submitted a biologics license supplement to include a once-monthly dosing regimen for pre-dialysis patients in the label for Aranesp. In October 2006, the FDA responded to Amgen's filing with a request for additional clinical data for the once-monthly dosing regimen, including an additional clinical study.

Roche has obtained regulatory approval to market and is launching a PEGylated ESA, called Mircera, in Europe. Mircera reportedly has greater plasma stability than any of the currently marketed products. PEG is a polymer that increases the time rEPO remains in the circulation and consequently can be dosed less frequently. Mircera has also obtained regulatory approval in the U.S., but Roche and Amgen are currently engaged in patent infringement litigation with respect to this product candidate. Mircera has recently been found to infringe several U.S. patents owned by Amgen. In February 2008, a preliminary injunction was issued enjoining Roche from selling Mircera in the U.S., but no permanent injunction was issued. Pending further proceedings, Roche is not yet permanently enjoined from launching Mircera in the U.S. and the court left open the possibility of a new order that would permit Roche to import and sell Mircera in the U.S. subject to certain conditions. If no permanent injunction is granted or if the court permits sales of Mircera by Roche, even under specified conditions, Mircera may enter the market before Hematide. Because of its ability to be longer acting than currently marketed ESAs, we believe that Mircera will be in direct competition with Hematide, and therefore could potentially limit the market for Hematide. In addition to marketed ESAs, there are several ESA product candidates in various stages of active development, including small molecules, by a potential competitor, FibroGen, Inc., that may promote the production of naturally-occurring EPO in patients, but reportedly remains on clinical hold in the U.S.

In addition, several generic versions of short-acting rEPO have recently been launched or are expected to launch in Europe in the near term. Generic EPOGEN products are not expected to enter the U.S. market until 2013, when the last patent in Amgen's U.S. EPO patent estate expires.

Government Regulation and Product Approvals

The clinical development, manufacturing and potential marketing of our products are subject to regulation by various authorities in the U.S., the E.U. and other countries, including, in the U.S., the FDA, and, in the E.U., the European Agency for the Evaluation of Medical Products, or EMEA. The Federal Food, Drug, and Cosmetic Act and the Public Health Service Act in the U.S., and numerous directives, regulations, local laws, and guidelines in the E.U. govern testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of our products. Product development and approval within these regulatory frameworks takes a number of years, and involves the expenditure of substantial resources.

Regulatory approval will be required in all major markets in which we, or our licensors, seek to test our products in development. At a minimum, such approval requires evaluation of data relating to quality, safety and efficacy of a product for its proposed use. The specific types of data required and the regulations relating to these data differ depending on the territory, the drug involved, the proposed indication and the stage of development.

In the U.S., specific preclinical data, chemical data and a proposed clinical study protocol, as described above, must be submitted to the FDA as part of an Investigational New Drug application, or IND, which, unless the FDA objects, will become effective 30 days following receipt by the FDA. Phase 1 trials may commence only after the IND application becomes effective. Prior regulatory approval for human healthy volunteer studies is also required in member states of the European Union, or E.U. Currently, in each member state of the E.U., following successful completion of Phase 1 trials, data are submitted in summarized format to the applicable regulatory authority in the member state in respect of applications for the conduct of later Phase 2 trials. The regulatory authorities in the E.U. typically have between one and three months in which to raise any objections to the proposed clinical trial, and they often have the right to extend this review period at their discretion. In the U.S., following completion of Phase 1 trials, further submissions to regulatory authorities are necessary in relation to Phase 2 and 3 trials to update the existing IND. Authorities may require additional data before allowing the trials to commence and could demand discontinuation of studies at any time if there are significant safety issues. In addition to regulatory review, a clinical trial involving human subjects has to be approved by an independent body. The exact composition and responsibilities of this body differ from country to country. In the U.S., for example, each clinical trial is conducted under the auspices of an Institutional Review Board at the institution at which the clinical trial is conducted. This board considers among other things, the design of the clinical trial, ethical factors, the safety of the human subjects and the possible liability risk for the institution. Equivalent rules apply in each member state of the E.U., where one or more independent ethics committees that typically operate similarly to an Institutional Review Board, will review the ethics of conducting the proposed research. Other authorities elsewhere in the world have slightly differing requirements involving both execution of clinical trials and import or export of pharmaceutical products. It is our responsibility to ensure that we conduct our business in accordance with the regulations of each relevant territory.

Information generated in this process is susceptible to varying interpretations that could delay, limit, or prevent regulatory approval at any stage of the approval process. Failure to demonstrate adequately the quality, safety and efficacy of a therapeutic drug under development would delay or prevent regulatory approval of the product. There can be no assurance that if clinical trials are completed, either we or our collaborative partners will submit applications for required authorizations to manufacture or market potential products, including a marketing authorization application or an NDA, or that any such application will be reviewed and approved by appropriate regulatory authorities in a timely manner, if at all.

In order to gain marketing approval, we must submit a dossier to the relevant authority for review, which is known in the U.S. as an NDA and in the E.U. as a marketing authorization application (MAA). The format is usually specified by each authority, although in general it will include information on the quality of the chemistry, manufacturing and pharmaceutical aspects of the product and non-clinical and clinical data. The FDA undertakes such reviews for the U.S. In the E.U., there is, for many products, a choice of two different authorization routes: centralized and decentralized. Under the centralized route, one marketing authorization is granted for the entire E.U., while under the decentralized route a series of national marketing authorizations are granted. In the centralized system, applications are reviewed by members of the Committee for Medicinal Products for Human Use, on behalf of the EMEA. The EMEA will, based upon the review of the Committee for Medicinal Products for Human Use, provide an opinion to the European Commission on the safety, quality and efficacy of the product. The decision to grant or refuse an authorization is made by the European Commission. In circumstances where use of the centralized route is not mandatory, we can choose to use the decentralized route, in which case the application will be reviewed by each member state's regulatory agency. If the regulatory agency grants the authorization, other member states' regulatory authorities are asked to "mutually recognize" the authorization granted by the first member state's regulatory agency. Approval can take several months to several years or be denied. The approval process can be affected by a number of factors. Additional studies or clinical trials may be requested during the review

and may delay marketing approval and involve unbudgeted costs. Regulatory authorities may conduct inspections of relevant facilities and review manufacturing procedures, operating systems and personnel qualifications. In addition to obtaining approval for each product, in many cases each drug manufacturing facility must be approved. Further, inspections may occur over the life of the product. An inspection of the clinical investigation sites by a competent authority may be required as part of the regulatory approval procedure. As a condition of marketing approval, the regulatory agency may require post-marketing surveillance to monitor adverse effects, or other additional studies as deemed appropriate. After approval for the initial indication, further clinical studies are usually necessary to gain approval for additional indications. The terms of any approval, including labeling content, may be more restrictive than expected and could affect product marketability.

Employees

As of December 31, 2007, we had 151 employees. We had 115 employees engaged in research and development, and our remaining employees are management or administrative staff. None of our employees is subject to a collective bargaining agreement. We believe that we have good relations with our employees.

About Affymax

We were incorporated in Delaware in July 2001 under the name Affymax, Inc. The address of our principal executive office is 4001 Miranda Avenue, Palo Alto, California 94304, and our telephone number is (650) 812-8700. Our website address is *www.affymax.com*. We do not incorporate the information on our website into this Annual Report on Form 10-K, and you should not consider it part of this Annual Report on Form 10-K.

We have a registration for the trademark "Affymax" in the U.S. We have applied in the U.S. to register the trademarks: "Adeptide," "Angiotide," "Avixis," "Gematide," "Hematide," "Innotide" and "Affymax and logo." We have applied in certain other countries to register the trademarks: "Avixis," "Hematide" and"Innotide."

Available Information

We file electronically with the U.S. Securities and Exchange Commission our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934. We make available on our website at *www.affymax.com*, free of charge, copies of these reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Further, copies of these reports are located at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at *www.sec.gov*.

Item 1A. Risk Factors.

You should carefully consider the risks described below, which we believe are the material risks of our business before making an investment decision. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Annual Report on Form 10-K, including our financial statements and related notes.

Risks Related to Our Business

We are dependent on the success of Hematide, and we cannot give any assurance that it will receive regulatory approval or be successfully commercialized.

Hematide, an ESA, is a new chemical entity and our only product candidate in clinical development. We are currently conducting Phase 3 clinical trials for the treatment of anemia associated with chronic renal failure. All of our other compounds or potential product candidates are in the research stage. In order to commercialize Hematide, we will be required to conduct clinical trials to establish that Hematide is safe and effective which may not succeed and to obtain regulatory approvals which we may fail to do. We do not know, and are unable to predict, whether we will be able to successfully enroll patients or to otherwise execute the Phase 3 clinical trials in a timely or effective manner.

The FDA, the medical community and others have recently raised significant safety concerns relating to commercially available ESAs as a result of reports of increased mortality and side effects from a number of clinical trials. The FDA recently required revised warnings, including black box warnings, be added to labels of currently marketed ESAs advising physicians to monitor hemoglobin levels and to use the lowest dose of ESA to increase the hemoglobin concentration to the lowest level sufficient to avoid the need for red blood cell transfusions. The FDA also issued a public health advisory re-evaluating the safe use of the ESA class and convened its Oncology Drugs Advisory Committee (ODAC) in May 2007 to consider recent information on risks associated with ESAs for use in the treatment of anemia in cancer patients. The ODAC recommended that the FDA institute restrictions on the usage of currently marketed ESAs, including limitations on the treatment of certain types of cancer and the duration of treatment. The FDA also convened a joint meeting in September 2007 of the Cardiovascular and Renal Drugs advisory committee and the Drug Safety and Risk Management advisory committee to review the risks and benefits of ESAs. The FDA approved revised black box warnings and other safety-related product labeling changes for currently marketed ESAs during 2007 and 2008. In addition, the FDA is convening another ODAC meeting in March 2008 to review data from more recent clinical trials with breast cancer patients and cervical cancer patients using currently marketed ESAs, and to consider additional action. We cannot predict what action the FDA may take which may include, among others, further label restrictions in specific tumor types or the lowering of target hemoglobin levels, or even the removal of indications from the label altogether. Further, regardless of whether the FDA takes additional action or not, the Centers for Medicare and Medicaid Services, or CMS, and private payors may still decide separately to lower or discontinue reimbursement.

The controversy surrounding ESAs and FDA concerns may negatively affect patient enrollment and the cost, scope, size, risk or timing of our clinical trials, increase the risk of achieving regulatory approval, and significantly delay commercialization of Hematide. The market for ESAs has been significantly reduced and is likely to negatively impact the commercial potential of Hematide.

Our clinical development program for Hematide may not lead to a commercial drug either because we fail to demonstrate that it is safe and effective in clinical trials and we therefore fail to obtain necessary approvals from the FDA, and similar foreign regulatory agencies, or because we have inadequate financial or other resources to advance this product candidate through the clinical trial

process. Any failure to obtain approval of Hematide would have a material and adverse impact on our business as we would have to incur substantial expense and it would take a significant amount of time and resources to bring our other product candidates to market, if ever.

Some of the recent safety concerns surrounding commercially available ESAs relate to clinical trials conducted in certain cancer patients suggest higher mortality and serious side effects associated with ESA treatment. The previous and future ODAC recommendations and the FDA implementation of or response to those recommendations may significantly limit the ability to develop chemotherapy-induced anemia as well as the anemia of cancer indications. Restrictions on labeling or use of ESAs as a result of these concerns may limit the potential market opportunity such that even if the Company is ultimately successful in obtaining regulatory approval, the commercial market and potential for Hematide may also be negatively impacted.

Hematide is at an earlier stage of development for chemotherapy-induced anemia in comparison to our renal program and as part of our collaboration with Takeda Pharmaceutical Company Limited, or Takeda, Takeda has assumed primary responsibility for regulatory and clinical development activities related to the worldwide oncology program. Takeda has recently initiated a Phase 1 clinical trial for the treatment of chemotherapy-induced anemia in prostate, breast, and non-small cell lung cancer patients in the U.S. The safety concerns surrounding ESAs has had a significant negative impact on the timing, and development of the Hematide oncology program and may adversely impact Takeda's or our interest or ability in pursuing this program.

We have incurred significant operating losses since inception and anticipate that we will incur continued losses for the foreseeable future. We may never achieve or sustain profitability.

We have experienced significant operating losses since our inception in 2001. Currently, we have no products approved for commercial sale and, to date, we have not generated any revenue from product sales. At December 31, 2007, we had an accumulated deficit of $211.8 million. We have funded our operations to date principally from the sale of our securities and from payments by Takeda under our collaboration agreements. We expect to continue to incur substantial additional operating losses for the next several years as we pursue our clinical trials, prepare for commercialization of Hematide, begin new development programs and add the necessary infrastructure to support operating as a public company. Our ability to generate revenue depends heavily on our ability to successfully develop and secure regulatory approval for, and commercially launch, our lead product candidate, Hematide. If due to lengthy and complicated development, clinical and regulatory requirements or any other reason, we are unable to commercialize Hematide, it will be a long time before we will be able to commercialize any other product candidates, if ever.

Even if we receive regulatory approval of Hematide, we must successfully commercialize Hematide before we can become profitable. We anticipate that it will be at least several years before we can commercialize Hematide and we expect to incur substantial expenses associated with our commercialization efforts as well as share in those of Takeda's even prior to obtaining approval of Hematide as well as thereafter. Accordingly, we may never generate significant revenues and, even if we do generate revenues, we may never achieve or sustain profitability.

Our existing product candidates will require extensive additional clinical evaluation, regulatory approval, significant marketing efforts and substantial investment before they can provide us or our partners with any revenue. If we or our partners are unable to develop and commercialize one or more of our product candidates or if sales revenue from any product candidate that receives marketing approval is insufficient, we may not achieve or sustain profitability, and we may be unable to continue our operations.

We have initiated binding arbitration and related litigation with Johnson & Johnson Pharmaceutical Research & Development, L.L.C., and Ortho-McNeil Pharmaceutical, Inc., or collectively, J&J, over ownership of intellectual property related to erythropoietin receptor, or EPO-R, agonists. An adverse result in this binding arbitration or litigation, together with adverse results in subsequent litigation J&J might then bring, could prevent us from manufacturing or commercializing Hematide in a number of countries in accordance with our current plans or could limit our ability to license third parties to do so.

We have initiated binding arbitration and related litigation with J&J over the ownership of a number of U.S. and international patents and patent applications related to EPO-R agonists, or the "intellectual property in dispute". We believe that we are the sole owner or co-owner of the intellectual property in dispute. J&J, on the other hand, alleges that it is the sole owner or co-owner of the intellectual property in dispute, including several U.S. patents on which we are currently named as sole owner that relate to specified peptide compounds. Although we believe our position in this dispute is meritorious and that we have substantial defenses to J&J's counterclaims, litigation is time consuming and expensive and the outcome is inherently uncertain. A number of outcomes in the dispute are possible, including, without limitation, the possibility that we lose or do not acquire specific patents and patent rights in the ESA field, J&J obtains or retains specific patents and patent rights in the ESA field or we become liable for damages, attorneys' fees and costs. Moreover, if the arbitration panel were to determine that J&J is the sole owner of one or more of the disputed patents, J&J may seek to assert such patents against us in the U.S., Europe and elsewhere.

We believe the U.S. intellectual property in dispute does not encompass Hematide and that we can manufacture, commercialize and sell Hematide in the U.S. regardless of the outcome of this arbitration. However, if, through the ongoing arbitration or otherwise, J&J or another potential competitor obtains or possesses patents or patent rights that are deemed to encompass one or more elements of Hematide, that party could initiate proceedings, an adverse result in which could prevent us from manufacturing or commercializing Hematide, either for ourselves or with Takeda, in the U.S.

If the intellectual property in dispute is deemed broad enough to cover Hematide, then under the laws applicable to most relevant jurisdictions outside the U.S., a finding of joint ownership would permit us to manufacture and sell Hematide, but may not allow us to license third parties to do so. Because our strategy is to commercialize Hematide worldwide through our partnership with Takeda, a finding of joint ownership of the patents and applications in question could materially affect our business plans outside the U.S. Within the U.S., joint ownership of a patent gives each joint owner the right to license third parties, so even if the patents in question are held to be jointly owned by us and J&J we do not believe we would be prevented from pursuing our partnership strategy for Hematide in the U.S. If the arbitration panel determines that J&J is the sole owner of one or more of the U.S. patents in the dispute that are assigned to us, J&J may seek to assert such patent against us in the U.S.

Although J&J's ownership of its European patent application relating to agonist peptide dimers is subject to the pending arbitration, a patent could be issued from this application to J&J by the European Patent Office in the near future. In the J&J arbitration proceeding, we have claimed that we should be at least joint owner of this European application. If this patent issues, J&J could seek to enforce this patent against us in Europe. In many European countries, a patent cannot be asserted to stop clinical trials, but in some, a patent holder can seek to enjoin clinical trials. We are seeking to minimize the effect this might have on our development plans, but there can be no assurance that our clinical trial and manufacturing plans would not be delayed if a European patent issues to J&J.

The outcome of any arbitration or litigation proceeding is inherently unpredictable. The claims and underlying facts at issue in this dispute are complex, and could necessitate prolonged discovery. Since we acquired assets from Affymax N.V. (a different company from us), discovery could uncover documents and other evidence of which we are not currently aware that are adverse to our position. We have incurred significant expense in pursuing this matter to date, and because a final decision on the arbitration and related litigation may not be reached for years, we expect we will continue to incur

significant and increasing expenses for several more years, likely totaling in the millions of dollars as this matter progresses toward resolution. In addition, the efforts of our technical, legal and management personnel have been and will continue to be diverted as a result of this dispute. The arbitration panel ruling permitting the scope of discovery to include certain information relating to Hematide could increase our legal expenses significantly and may further divert the efforts of our technical, legal and management personnel.

Our commercial success depends upon attaining significant market acceptance of Hematide among physicians, patients, health care payors and, in the renal market, acceptance by the major operators of dialysis clinics.

None of our product candidates has been approved or commercialized for any indication. Even if approved for sale by the appropriate regulatory authorities, physicians may not prescribe Hematide or any of our other product candidates, in which case we would not generate revenue or become profitable. In particular, the therapeutic indications targeted by our lead product candidate have been served by our competitors' products for many years. These products may now be said to be the standard of care, and it may be difficult to encourage healthcare providers to switch from products with which they and their patients have become comfortable.

The dialysis market, which is one of the largest and most established markets that Hematide will attempt to penetrate, is highly concentrated, with two companies serving a significant majority of all dialysis patients on Medicare. In addition, dialysis clinics using ESAs could incur substantial expense in administration and training if they were to switch from current ESAs to Hematide. The concentration of customers for ESAs within the dialysis market may pose a risk to our ability to obtain revenues or favorable margins on Hematide, if approved. If we cannot come to agreements with one or more of the major companies operating dialysis clinics in the U.S. or even if we do, we cannot do so prior to product launch, the revenue opportunity of Hematide could be significantly reduced. In October 2006, Amgen Inc., or Amgen, marketer of the ESAs EPOGEN and Aranesp, and Fresenius Medical Care, or Fresenius, one of the two largest operators of dialysis clinics in the U.S., announced an agreement whereby Amgen would be the sole supplier of EPO products for Fresenius' dialysis business effective immediately through the end of 2011. We are not aware of the specific terms of the Amgen-Fresenius agreement, and cannot project how it may impact the commercial opportunity for Hematide if and when it is launched. However, agreements between operators of dialysis facilities and marketers of competing ESA products could potentially limit the market opportunity for Hematide, and adversely impact our ability to generate revenues.

Currently, CMS, reimburses healthcare providers for use of ESAs at a rate of average sales price plus a 6% margin to the provider, or ASP plus 6%. These reimbursements rates have been declining and have been subject to concerns over the uses that will be subject to future reimbursement. We cannot be certain what reimbursement policies will be in effect at the time we seek to enter the chronic renal failure market or any other indication in the U.S., or the effect these policies may have on our ability to compete effectively, if we are ever successful in reaching the market.

In addition, recent studies by manufacturers of ESAs indicate that the higher levels of hemoglobin achieved through administration of ESAs can result in a statistically significant increase in cardiovascular events. This may in turn reduce the growth or cause contraction of the market for ESAs and reduce the potential revenues for Hematide.

In the pre-dialysis market, one challenge is that patients suffering from anemia may not access health care resources to treat their condition for some time following its onset. As a result, the available pre-dialysis market may be limited by the overall proportion of patients who are diagnosed with the condition, how early these patients are diagnosed, and at what point they begin treatment. Additionally, reaching and educating the doctors who treat pre-dialysis patients may be difficult, as these patients are spread thinly across a variety of treatment settings. Primary care physicians that treat

pre-dialysis patients may not be comfortable with reimbursement procedures for injectible products and thus delay or restrict treatment with ESAs.

In addition, market acceptance of ESAs as well as our lead product candidate, Hematide, and any future product candidates by physicians, healthcare payors and patients will depend on a number of additional factors, including:

- the clinical indications for which the product candidate is approved;
- acceptance by physicians and patients of each product candidate as a safe and effective treatment;
- perceived advantages over alternative treatments;
- the cost of treatment in relation to alternative treatments;
- the availability of adequate reimbursement by third parties;
- the continued use of ESA treatments generally for anemia at levels above those currently accepted as industry guidance;
- relative convenience and ease of administration; and
- the prevalence and severity of side effects.

Competition in the pharmaceutical industry is intense. If our competitors are able to develop and market products that are more effective, safer or less costly than any future products that we may develop, our commercial opportunity will be reduced or eliminated.

We face competition from established and emerging pharmaceutical and biotechnology companies, as well as from academic institutions, government agencies and private and public research institutions. Our commercial opportunity will be reduced or eliminated if our competitors develop and commercialize products that are more effective, have fewer side effects or are less expensive than Hematide or any other future products that we may develop and commercialize. In addition, significant delays in the development of our product candidates could allow our competitors to bring products to market before we do and impair our ability to commercialize our product candidates. Competitors may also reduce the price of their ESAs in order to gain market share. These price reductions could force us to lower the price of Hematide in order to compete effectively, resulting in lower revenues and reduced margins on the sales of Hematide.

We anticipate that, if approved, Hematide would compete with EPOGEN and Aranesp, which are both marketed by Amgen, PROCRIT, which is marketed by Ortho Biotech Products, L.P. (a subsidiary of J&J), NeoRecormon and Mircera, currently marketed outside the U.S. by Roche. Aranesp is approved for once-monthly dosing for treatment of anemia in pre-dialysis patients in Europe. In the U.S., Amgen is reportedly in the process of seeking approval for once-monthly dosing of Aranesp for treatment of anemia in pre-dialysis patients. If Amgen is successful in obtaining approval for once-monthly dosing, the market for Hematide may be decreased. In addition, Roche's Mircera has recently received approval in Europe. Mircera reportedly has greater plasma stability and is longer acting than any rEPO product that is currently on the market. Roche and Amgen are currently engaged in patent litigation. Mircera has recently been found to infringe several U.S. patents owned by Amgen. In February 2008, a preliminary injunction was issued enjoining Roche from selling Mircera in the U.S., but no permanent injunction was issued. Pending further proceedings, Roche is not yet permanently enjoined from launching Mircera in the U.S. and the court left open the possibility of a new order that would permit Roche to import and sell Mircera in the U.S. subject to certain conditions. If no permanent injunction is granted or if the court permits sales of Mircera by Roche, even under specified conditions, Mircera may enter the market before Hematide. Because of its ability to be longer acting than currently marketed ESAs, we believe that Mircera will be in direct competition with Hematide,

and therefore could potentially limit the market for Hematide. If Roche successfully appeals the decision, or if Amgen is unsuccessful in obtaining a preliminary injunction or if Amgen is required to grant a license to Roche, Mircera may enter the market before Hematide. Because of its ability to be longer acting, we believe that Mircera will be in direct competition with Hematide, and therefore could potentially limit the market for Hematide. Another potential competitor, FibroGen, Inc., or FibroGen, is developing small molecules designed to promote the production of greater levels of naturally-occurring EPO in patients. The introduction of generics into the ESA market, or new market entrants, could also prove to be a significant threat to us as it could not only limit the market for Hematide, but could also drive down the price of ESAs.

Most of these competitors have substantially greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Current marketers of ESAs also have the ability to bundle sales of existing ESA products with their other products, potentially disadvantaging Hematide, which we plan to sell on a stand-alone basis. Established pharmaceutical and large biotechnology companies may invest heavily to discover and develop novel compounds or drug delivery technology that could make our product candidates obsolete. Smaller or early stage companies may also prove to be significant competitors, particularly through strategic partnerships with large and established companies. These third parties may compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies and technology licenses complementary to our programs or advantageous to our business. Our competitors may succeed in obtaining patent or other intellectual property protection, receiving FDA approval, or discovering, developing and commercializing products before we do.

The U.S. market opportunity for Hematide may deteriorate significantly after existing rEPO patents expire in the U.S. in 2013.

The last significant U.S. patent for epoetin alfa, a version of short-acting rEPO, expires in 2013. Patents related to epoetin alfa expired in the E.U. in 2004. Generic versions, or biosimilars, of short-acting rEPO are currently being developed or launched in and for various markets outside the U.S., including the E.U. Short-acting rEPO biosimilars are already being sold in various territories outside the U.S. and the E.U. We expect that biosimilars, including rEPO, will be sold at a significant discount to existing branded products when they are launched in the U.S. and the E.U. The introduction of biosimilars into the ESA market could prove to be a significant threat to Hematide if they are able to demonstrate bioequivalence to existing ESAs. Biosimilars will constitute additional competition for Hematide and could drive its price and sales volume down, which may adversely affect our revenues.

Any failure or delay in completing clinical trials for our product candidates could severely harm our business.

Hematide, as well as any other product candidate we choose to advance, must undergo extensive preclinical studies and clinical trials as a condition to regulatory approval. Preclinical studies and clinical trials are expensive and take many years to complete. We estimate that clinical trials and related regulatory review for our most advanced product candidate, Hematide, will continue for at least four years for the renal program, but could take significantly longer to complete. Hematide is at an earlier stage of development for chemotherapy-induced anemia in comparison to our renal program and would take many more years of development prior to commercialization, if ever. The completion of clinical trials for Hematide may be delayed or halted for many reasons, including:

- safety issues, including serious adverse events associated with Hematide, and concerns surrounding use of ESAs generally;

- delays in initiating sites and patient enrollment, and variability in the number and types of patients available for clinical trials;
- longer duration of our Phase 3 clinical trials for Hematide than the currently planned 52 week treatment period of the last patient if the rates of cardiovascular events are lower than expected;
- difficulties of executing our clinical program, including the four Phase 3 clinical trials for Hematide, which is large and complex, involving numerous third parties, approximately 400 sites in the U.S. and Europe, compliance with a variety of government regulations, and a number of significant new initiatives and systems for which we do not have any prior experience implementing;
- delays or failure in reaching agreement on acceptable clinical trial contracts or clinical trial protocols with prospective sites;
- regulators or institutional review boards may not authorize us to commence a clinical trial;
- our inability, or the inability of our collaborators or licensees, to manufacture or obtain from third parties materials sufficient to complete our preclinical studies and clinical trials;
- risks associated with non-inferiority trial designs, which are studies devised and statistically powered to show that the test drug is not inferior to the control drug;
- difficulty in maintaining contact with patients after treatment, resulting in incomplete data;
- poor effectiveness of product candidates during clinical trials;
- the failure of patients to complete clinical trials due to side effects, dissatisfaction with the product candidate or other reasons;
- governmental or regulatory delays and changes in regulatory requirements, policy and guidelines; and
- varying interpretation of data by FDA and similar foreign regulatory agencies.

Clinical trials may require the enrollment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Our ability to enroll sufficient numbers of patients in our clinical trials depends on many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites, the eligibility criteria for the trial and competing clinical trials. Patients participating in the trials may not live through completion of the trial or may suffer adverse medical effects unrelated to treatment with our product candidate. The results from preclinical testing and prior clinical trials may not be predictive of results obtained in later and larger clinical trials. A number of companies in the pharmaceutical industry have suffered significant setbacks in clinical trials, even in advanced clinical trials after showing promising results in earlier clinical trials. Our failure to adequately demonstrate the safety and effectiveness of any of our product candidates will prevent us from receiving regulatory approval and negatively impact our business.

It is possible that none of our product candidates will complete clinical trials in any of the markets in which we intend to sell those product candidates. We also do not know and are unable to predict whether the data arising from the clinical trials for Hematide will be satisfactory to the FDA and, if not, whether the FDA will require us to conduct additional trials or alter the scope, size or design of such trials, which could result in additional delays in bringing Hematide to market, if ever. Accordingly, we may not receive the regulatory approvals needed to market our product candidates. Any failure or delay in completing clinical trials for our product candidates would delay commercialization of our product candidates and severely harm our business and financial condition.

All of our product candidates other than Hematide are in early stage research. If we are unable to develop, test and commercialize our other product candidates, our business will be adversely affected.

Although Hematide is the main focus of our business, which we expect to be the case for the foreseeable future, as part of our strategy we also seek to discover, develop and commercialize a portfolio of new products in addition to Hematide. We are seeking to do so through our internal research programs and intend to explore strategic collaborations for the development of new products. Research programs to identify new disease targets and product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for many reasons, including, but not limited to, the following:

- the financial and internal resources are insufficient and are needed for Hematide;
- the research methodology used may not be successful in identifying potential product candidates;
- competitors may develop alternatives that render our product candidates obsolete;
- a product candidate may on further study be shown to have harmful side effects or other characteristics that indicate it is unlikely to be effective or otherwise does not meet applicable regulatory approval;
- a product candidate is not capable of being produced in commercial quantities at an acceptable cost, or at all; or
- a product candidate may not be accepted by patients, the medical community or third-party payors.

Our strategy also includes in-licensing or acquiring product candidates that leverage our product development strengths. We may not be able to license or acquire promising product candidates on reasonable terms, if at all.

If we fail to maintain our existing collaboration with Takeda, such termination would likely have a material adverse effect on our ability to continue to develop Hematide and our business. If we fail to enter into new, strategic collaborations with other product candidates we pursue, we may have to reduce or delay our product candidate development efforts or increase our expenditures.

Our business model is based in part upon entering into strategic collaborations for development of our product candidates. If we are not able to maintain our existing collaboration with Takeda to develop and commercialize Hematide, our business could be severely adversely affected. Takeda has the ability to terminate each of the collaboration agreements upon an uncured material breach by us or even in the absence of a material breach after the second anniversary of the effective date of such agreement with six-months' notice. Currently, Takeda could provide us notice of termination of either or both of our collaboration agreements, which would likely have a material adverse effect on the advancement of our Hematide program and our business. Through the collaboration, Takeda currently provides development funding and services, and is expected to pay us milestone payments upon the completion of certain events, all of which would be unavailable to us in the case of an early termination of the collaboration.

In addition, if we fail to maintain the Takeda collaboration or establish and maintain additional strategic collaborations for our other potential product candidates:

- the development of our current or future product candidates may be terminated or delayed;
- our cash expenditures related to development of our current or future product candidates would increase significantly and we may need to seek additional financing;

- we may be required to hire additional employees or otherwise develop expertise, such as sales and marketing expertise, for which we have not budgeted;
- we will bear all of the risk related to the development of each of our current and future product candidates; and
- we may be unable to meet demand for any future products that we may develop.

Any of these events could have a material adverse effect on our business.

Reimbursement may not be available for Hematide or any other product candidates we choose to advance, which could diminish our sales or affect our ability to sell our products profitably.

Market acceptance and sales of Hematide as with any product candidate we choose to advance will depend on reimbursement policies and may be affected by future health care reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which drugs they will pay for and establish reimbursement levels. We cannot be sure that reimbursement will be available for Hematide or any of our product candidates. Also, we cannot be sure that reimbursement amounts will not reduce the demand for, or the price of, our products. We have not commenced efforts to have our product candidates reimbursed by government or third-party payors. If reimbursement is not available or is available only to limited levels, we may not be able to commercialize our products.

In both the U.S. and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals in recent years to change the healthcare system in ways that could impact our ability to sell our products profitably. These proposals include prescription drug benefit proposals for Medicare beneficiaries and measures that would limit or prohibit payments for certain medical treatments or subject the pricing of drugs to government control. Legislation creating a prescription drug benefit and making certain changes in Medicaid reimbursement has recently been enacted. In particular, in December 2003, President Bush signed into law new Medicare prescription drug coverage legislation that changes the methodology used to calculate reimbursement for certain drugs such as Hematide. In addition, the legislation directs the Secretary of Health and Human Services to contract with procurement organizations to purchase physician-administered drugs from the manufacturers and provides physicians with the option to obtain drugs through these organizations as an alternative to purchasing from the manufacturers, which some physicians may find advantageous.

In addition, in response to the FDA's recent black box warning and public health advisories, CMS has recently significantly restricted coverage of ESAs. In July 2007, CMS issued its National Coverage Decision Memorandum for Use of Erythropoiesis Stimulating Agents in Cancer and Neoplastic Conditions, or the National Coverage Decision, that determined that ESA treatment was not reasonable or necessary for certain medical conditions, including any anemia of cancer not related to cancer treatment, among others. The National Coverage Decision also established the ESA reimbursement policy for Medicare and other government beneficiaries who are treated for chemotherapy-induced anemia and contains a coverage restriction for hemoglobin levels greater than 10g/dL, which has had a material adverse effect on the use of ESAs. In July 2007, CMS also issued revisions to its reimbursement policies for the use of ESAs for end stage renal disease in cases where hemoglobin levels exceed 13 g/dL and also decreased the monthly dosing limits. Independent of any additional action the FDA may take as to ESAs, CMS may further decrease coverage which could have a materially negative impact on the size of the ESA market in the United States and reduce the overall size of the market Hematide is expected to compete in at the time of launch.

As a result of these reimbursement and other legislative proposals and the trend towards managed health care in the U.S., third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement of new drugs. They may also refuse to provide any coverage of approved products for medical indications other than those for which the FDA has

granted market approvals. In addition, major third party payors, have begun to follow CMS's restrictive reimbursement policies, which has further decreased the market for ESAs. As a result, significant uncertainty exists as to whether and how much third-party payors will reimburse patients for their use of newly approved drugs, which in turn will put pressure on the pricing of drugs. We expect to experience pricing pressures in connection with the sale of our products due to the trend toward managed health care, the increasing influence of health maintenance organizations and additional legislative proposals.

CMS policies are constantly changing and we cannot guarantee that they will not decrease, limit or deny reimbursement of Hematide in the future.

CMS, the agency within the Department of Health and Human Services that manages Medicare and will be responsible for reimbursement of the cost of Hematide administered to Medicare beneficiaries, has asserted the authority of Medicare not to cover particular drugs if it determines that they are not "reasonable and necessary" for Medicare beneficiaries, or to cover them at a lesser rate, compared to drugs that CMS considers to be therapeutically comparable. We cannot be certain that CMS will not decrease, limit or deny reimbursement of Hematide for any therapeutic indication we may pursue. As the costs of the Medicare program continue to grow, CMS may be compelled to make difficult decisions regarding the trade-offs of supporting the reimbursement of certain public health expenditures over others. Depending on methods CMS uses to calculate the cost-benefit of treatments competing for share of the Medicare budget, ESAs (including Hematide) may not be considered to offer sufficient overall health benefit to justify reimbursement at levels that will allow us to achieve and sustain profitability. In addition, further, as a result of the recent safety concerns relating to ESAs, CMS recently announced policies significantly restricting the coverage of ESAs. Further, CMS has instituted dramatic Medicare reimbursement changes in the past that adversely impacted the businesses of companies in other segments of the healthcare industry, and we cannot determine that CMS will not do the same in the markets in which we operate.

Capitated reimbursement policies, if adopted, could create disincentives for use of ESAs.

CMS currently reimburses healthcare providers for use of ESAs at ASP plus 6%. In the future, CMS may reimburse ESAs under methods other than ASP plus 6%, including capitation, a method that reimburses providers a fixed amount per patient regardless of the level of service provided or dose of ESAs administered. We cannot guarantee that Hematide, or any of our other product candidates, will be reimbursed by CMS to incentivise physician adoption. In fact, a capitated reimbursement payment methodology may create incentives for lower utilization or dosing of ESAs, including Hematide.

If we fail to obtain additional financing, we will be unable to complete the development and commercialization of Hematide and our other product candidates, or to continue our research and development programs.

Our operations have consumed substantial amounts of cash since our inception. We expect to continue to spend substantial amounts in order to:

- complete the Phase 3 clinical trials for the Hematide renal program and other clinical development of Hematide and our other product candidates we choose to advance, if any;
- prepare to launch and commercialize Hematide or any product candidates we decide to advance, including building our own commercial organization and sales force to address certain markets;
- continue our research and development programs; and
- license or acquire additional product candidates.

We believe that existing cash, cash equivalents and investments and the interest thereon, will enable us to maintain our currently planned operations through at least mid 2009. However, we expect that additional capital will need to be raised to complete the development and commercialization of Hematide as well as to complete the development and commercialization of our current product candidates.

To date, our sources of cash have been limited primarily to the proceeds from the sale of our securities to private and public investors and payments by Takeda under our collaboration agreements. We cannot be certain that additional funding will be available on acceptable terms, or at all. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants, such as limitations on our ability to incur additional indebtedness, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue the development and/or commercialization of Hematide and other product candidates. We also may be required to:

- seek collaborators for our product candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; and
- relinquish or license on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves.

We rely on third parties to conduct preclinical and clinical trials for our product candidates, and if they do not properly and successfully perform their obligations to us, we may not be able to obtain regulatory approvals for our product candidates.

We design the clinical trials for our product candidates, but we rely on contract research organizations and other third parties to assist us in managing, monitoring and otherwise carrying out these trials. We compete with larger companies for the resources of these third parties.

Although we rely on these third parties to conduct our clinical trials, we are responsible for confirming that each of our clinical trials is conducted in accordance with its general investigational plan and protocol. Moreover, FDA and foreign regulatory agencies require us to comply with regulations and standards, commonly referred to as good clinical practices, for conducting, recording and reporting the results of clinical trials to assure that the data and results are credible and accurate and that the trial participants are adequately protected. Our reliance on third parties does not relieve us of these responsibilities and requirements.

We may not be able to maintain our relationships with these contract research organizations on acceptable terms. These third-party collaborators generally may terminate their engagements with us at any time and having to enter into alternative collaboration arrangements would delay introduction of our product candidates to market. As a result, we can control their activities only within certain limits, and they will devote only a certain amount of their time to conduct research on our product candidates and develop them.

If these third parties do not successfully carry out their duties under their agreements with us, if the quality or accuracy of the data they obtain is compromised due to failure to adhere to our clinical protocols or regulatory requirements, or if they otherwise fail to comply with clinical trial protocols or meet expected deadlines, our clinical trials may not meet regulatory requirements. If our clinical trials do not meet regulatory requirements or if these third parties need to be replaced, our preclinical development activities or clinical trials may be extended, delayed, suspended or terminated. If any of these events occur, we may not be able to obtain regulatory approval of our product candidates.

Our dependence upon third parties for the manufacture and supply of our products may cause delays in, or prevent us from, successfully developing and commercializing products.

We do not currently have the infrastructure or capability internally to manufacture the drug products that we need to conduct our clinical trials. We have entered into agreements with contract manufacturers to produce our clinical supplies of Hematide; however, we do not have all of our long-term supply arrangements established for Hematide or any of our other product candidates. Hematide is a new chemical entity and the manufacturing process for commercial scale production remains to be validated at any manufacturer in accordance with applicable regulatory guidelines and as such, there are risks associated with the full scale manufacture of the drug substance, which could include: cost overruns, process scale-up, process reproducibility, stability issues and timely availability of raw materials, as well as regulatory issues associated with the manufacture of our product candidates. Further, some of these arrangements, including the provision of bulk poly(ethylene) glycol reagent for the manufacture of Hematide from Nektar Therapeutics AL, Corporation, or Nektar, are currently single-sourced, leaving us more susceptible to supply interruptions and potential delays. We have transferred responsibility of manufacture of Hematide finished product to Takeda and we therefore have limited control and ability to address risks associated with that portion of the Hematide manufacturing process. Any of these risks may prevent or delay us from successfully developing Hematide or other product candidates.

For the foreseeable future, we expect to continue to rely on contract manufacturers, partners and other third parties to produce sufficient quantities of our product candidates for use in our clinical trials. If our contract manufacturers or other third parties fail to deliver materials for the manufacture of Hematide or Hematide itself for clinical use or for our registration stability studies on a timely basis, with sufficient quality and at commercially reasonable prices, and if we fail to find replacement manufacturers or to develop our own manufacturing capabilities, we may be required to delay or suspend clinical trials or our planned NDA filing or otherwise discontinue development and production.

We, our third-party manufacturers and our partners are required to comply with applicable FDA manufacturing practice regulations. If one of our third-party manufacturers fails to maintain compliance with these regulations, the production of our product candidates could be interrupted, resulting in delays and additional costs. Additionally, our third-party manufacturers must pass a pre-approval inspection before we can obtain regulatory approval for any of our product candidates. If for any reason these third parties are unable or unwilling to perform under our agreements or enter into new agreements with us, we may not be able to locate alternative manufacturers or enter into favorable agreements with them in an expeditious manner. We could also experience manufacturing delays if our third-party manufacturers give greater priority to the production of other products over our product candidates. Any inability to acquire sufficient quantities of our product candidates or components thereof in a timely manner from third parties could delay clinical trials or result in product shortages and prevent us from developing and commercializing our product candidates in a cost-effective manner or on a timely basis.

The commercial success of Hematide depends in part on the development and marketing efforts of Takeda, over which we have limited control. If our collaborations are unsuccessful, our ability to develop and commercialize products through our collaborations, and to generate future revenue from the sale of these products, would be significantly reduced.

Our dependence on Takeda for our global collaboration with Hematide and our other collaboration arrangements, subjects our company to a number of risks. Our ability to develop and commercialize drugs that we develop with our collaboration partners depends on our collaboration partners' abilities to establish the safety and efficacy of our product candidates, obtain and maintain regulatory approvals and achieve market acceptance of a product once commercialized. Under our collaboration with Takeda, we co-develop and co-commercialize Hematide in the U.S. Because we share

responsibility with Takeda for clinical development activities in the U.S., the progress of the Hematide program, particularly for the chemotherapy-induced anemia indication, is dependent on the efforts of Takeda. Takeda holds an exclusive license to develop and commercialize Hematide outside of the U.S. and any progress and commercial success in those territories is dependent solely on Takeda's efforts and commitment to the program. Our collaboration partners may elect to delay or terminate development of one or more product candidates, independently develop products that compete with ours, or fail to commit sufficient resources to the marketing and distribution of products developed through their collaboration with us. Competing products, either developed by our collaboration partners or to which our collaboration partners have rights or acquire in the future, may result in our partners' withdrawal of support for our product candidates.

In the event that one or more of our collaboration partners fails to diligently develop or commercialize a product candidate covered by one of our collaboration agreements, we may have the right to terminate our partner's rights to such product candidate but we will not receive any future revenue from that product candidate unless we are either able to find another partner or to commercialize the product candidate on our own, which is likely to result in significant additional expense. Business combinations, significant changes in business strategy, litigation and/or financial difficulties may also adversely affect the willingness or ability of one or more of our collaboration partners to complete their obligations under our collaboration agreements. If our collaboration partners fail to perform in the manner we expect, our potential to develop and commercialize products through our collaborations and to generate future revenue from the sale of these products, would be significantly reduced. If a conflict of interest arises between us and one or more of our collaboration partners, they may act in their own self-interest and not in the interest of our company or our stockholders. If one or more of our collaboration partners were to breach or terminate their collaboration agreements with us or otherwise fail to perform their obligations thereunder in a timely manner, the preclinical or clinical development or commercialization of the affected product candidates or research programs could be delayed or terminated.

It is difficult and costly to protect our proprietary rights, and we may not be able to ensure their protection.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection of our product candidates, their use and the methods used to manufacture them, as well as successfully defending these patents against third-party challenges. Our ability to protect our product candidates from unauthorized making, using, selling, offering to sell or importation by third parties is dependent upon the extent to which we have rights under valid and enforceable patents, or have trade secrets that cover these activities.

We have licensed from third parties rights to numerous issued patents and patent applications. The rights to product candidates that we acquire from licensors or collaborators are protected by patents and proprietary rights owned by them, and we rely on the patent protection and rights established or acquired by them. Because we may acquire rights to late-stage products, the remaining patent terms of licensed patents relating to those products may not provide meaningful protection. Moreover, third parties may challenge the patents, patent applications and other proprietary rights held by our licensors or collaborators. We generally do not unilaterally control the prosecution of patent applications licensed from third parties. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we may exercise over internally developed intellectual property.

Even if we are able to obtain patents on our product candidates, any patent may be challenged, invalidated, held unenforceable or circumvented. The existence of a patent will not necessarily protect us from competition or from claims of a third party that our products infringe their issued patents. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date in the U.S. The biotechnology patent situation outside the U.S. is even more uncertain. Competitors

may successfully challenge our patents, produce similar drugs or products that do not infringe our patents, or produce drugs in countries where we have not applied for patent protection or that do not respect our patents. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our licensed patents, in our patents or in third-party patents or applications therefor.

The degree of future protection to be afforded by our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- others may be able to make compounds that are similar to our product candidates but that are not covered by the claims of our patents, or for which we are not licensed under our license agreements;
- we or our licensors or collaborators might not have been the first to make the inventions covered by our pending patent application or the pending patent applications and issued patents of our licensors;
- we or our licensors or collaborators might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights;
- it is possible that our pending patent applications will not result in issued patents;
- our issued patents and the issued patents of our licensors or collaborators may not provide us with any competitive advantages, or may be held invalid or unenforceable as a result of legal challenges by third parties;
- we may not develop additional proprietary technologies that are patentable; or
- the patents of others may have an adverse effect on our business.

We also may rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using any of our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the U.S. are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

Our research and development collaborators may have rights to publish data and other information to which we have rights. In addition, we sometimes engage individuals or entities to conduct research that may be relevant to our business. The ability of these individuals or entities to publish or otherwise publicly disclose data and other information generated during the course of their research is subject to certain contractual limitations. These contractual provisions may be insufficient or inadequate to protect our trade secrets and may impair our patent rights. If we do not apply for patent protection prior to such publication or if we cannot otherwise maintain the confidentiality of our technology and other confidential information, then our ability to receive patent protection or protect our proprietary information may be jeopardized.

We expect to incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights and we may be unable to protect our rights to, or use, our technology.

Our ability, and that of our commercial partners, to commercialize any approved products will depend, in part, on our ability to obtain patents, enforce those patents and operate without infringing

the proprietary rights of third parties. The patent positions of biotechnology and pharmaceutical companies can be highly uncertain and involve complex legal and factual questions. We have filed multiple U.S. patent applications and foreign counterparts related to Hematide and other programs as well as underlying platform technologies and may file additional U.S. and foreign patent applications related thereto. There can be no assurance that any issued patents we own or control will provide sufficient protection to conduct our business as presently conducted or as proposed to be conducted, that any patents will issue from the patent applications owned by us, or that we will remain free from infringement claims by third parties.

The failure to obtain adequate patent protection would have a material adverse effect on us and may adversely affect our ability to enter into, or affect the terms of, any arrangement for the further development and marketing of any product. There can also be no assurance that patents owned by us will not be challenged by others. We are currently involved in binding arbitration with J&J, which could result in one or more patents being issued to these parties for technology that we jointly or solely own. We could incur substantial costs in proceedings, including interference proceedings before the U.S. Patent and Trademark Office and comparable proceedings before similar agencies in other countries in connection with any claims that may arise in the future. These proceedings could result in adverse decisions about the patentability of our inventions and products, as well as about the enforceability, validity or scope of protection afforded by our patents.

Patent applications in the U.S. and elsewhere are published only after 18 months from the priority date. The publication of discoveries in the scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made. Therefore, patent applications relating to products similar to Hematide and any future products may have already been filed by others without our knowledge. In the event an infringement claim is brought against us, we may be required to pay substantial legal and other expenses to defend such a claim and, if we are unsuccessful in defending the claim, we may be prevented from pursuing related product development and commercialization and may be subject to damage awards.

Our ongoing litigation is described in the sections entitled "Business—Intellectual Property" and "Legal Proceedings." We have incurred substantial expense as a result of our litigation and arbitration proceedings and we expect to incur even greater expense in the future. In addition, any future patent litigation, interference or other administrative proceedings will result in additional expense and distraction of our personnel. An adverse outcome in such litigation or proceedings may expose us or our collaborators to loss of our proprietary position or to significant liabilities, or require us to seek licenses that may not be available from third parties on commercially acceptable terms or at all. In addition, we may be restricted or prevented from manufacturing, developing or commercializing Hematide or from developing, manufacturing and selling any future products in the event of an adverse determination in a judicial or administrative proceeding or if we fail to obtain necessary licenses. If it is determined that we have infringed an issued patent, we could be compelled to pay significant damages, including punitive damages.

Virtually all of our competitors are able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations, in-license technology that we need, out-license our existing technologies or enter into collaborations that would assist in bringing our product candidates to market.

If we are unable either to create sales, marketing and distribution capabilities or enter into agreements with third parties to perform these functions, we will be unable to commercialize our product candidates successfully.

We currently have no sales, marketing or distribution capabilities. To commercialize our product candidates, we must either develop internal sales, marketing and distribution capabilities, which will be expensive and time consuming, or make arrangements with third parties to perform these services. If we decide to market any of our products directly, we must commit significant financial and managerial resources to develop a marketing and sales force with technical expertise and with supporting distribution capabilities. Factors that may inhibit our efforts to commercialize our products directly and without strategic partners include:

- our inability to recruit and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to prescribe our products;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating and sustaining an independent sales and marketing organization.

If we are not able to collaborate with a third party and are not successful in recruiting sales and marketing personnel or in building a sales and marketing infrastructure, we will have difficulty commercializing our product candidates, which would adversely affect our business and financial condition. If we do collaborate with and rely on pharmaceutical or biotechnology companies with established sales, marketing and distribution systems to market our products, we will need to establish and maintain partnership arrangements, and we may not be able to enter into these arrangements on acceptable terms. To the extent that we enter into co-promotion or other arrangements, any revenues we receive will depend upon the efforts of third parties, which may not be successful and are only partially in our control. In that event, our product revenues would likely be lower than if we marketed and sold our products directly.

If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop our product candidates, conduct our clinical trials and commercialize our product candidates.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists. We are highly dependent upon our senior management and scientific staff, particularly Arlene Morris, our President and Chief Executive Officer, and Dr. Anne-Marie Duliege, our Chief Medical Officer. The loss of services of Ms. Morris, Dr. Duliege, or one or more of our other members of senior management could delay or prevent the successful completion of our planned clinical trials or the commercialization of our product candidates.

Competition for qualified personnel in the biotechnology and pharmaceuticals field is intense. We will need to hire additional personnel as we expand our clinical development and commercial activities. We may not be able to attract and retain quality personnel on acceptable terms. Each of our officers and key employees may terminate his/her employment at any time without notice and without cause or good reason.

As we evolve from a company primarily involved in research and development to a company also involved in commercialization, we may encounter difficulties in managing our growth and expanding our operations successfully.

As we advance our product candidates through clinical trials, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with various collaborative partners, suppliers and other third parties. Future growth will impose significant added responsibilities on members of management. 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 and hire, train and integrate additional management, administrative and sales and marketing personnel. We may not be able to accomplish these tasks, and our failure to accomplish any of them could prevent us from successfully growing our company.

Our operations may be adversely impacted by the financial markets, including exposure to risks related to foreign currency exchange rates and credit markets with respect to our cash, cash equivalents and marketable securities.

Some of our costs and expenses associated with our clinical trials are denominated in foreign currencies. We are primarily exposed to changes in exchange rates with Europe due to agreements with third party vendors and clinical sites located in Europe. When the United States dollar weakens against these currencies, the dollar value of the foreign-currency denominated expense increases, and when the dollar strengthens against these currencies, the dollar value of the foreign-currency denominated expense decreases. Accordingly, changes in exchange rates, and in particular a weakening of the United States dollar, may adversely affect our results of operations. We currently do not hedge against our foreign currency risks.

As of December 31, 2007, we had $33.4 million invested in auction rate securities, or ARS, issued principally by municipal entities and rated AAA by a major credit rating agency. ARS are structured to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, usually every 28 days. However, recent events have caused overall liquidity concerns in the ARS markets and have resulted in failed auctions during the first quarter of 2008. In January 2008, all ARS with January auction reset dates had successful auctions at which their interest rates were reset. However, based on failed auctions since then and the expectation of continued failures through the filing date of our Annual Report on Form 10-K, we classified $15.7 million of ARS held as long-term investments as of December 31, 2007. The $15.7 million represents all ARS held as of December 31, 2007 that had not been sold as of February 29, 2008. As of February 29, 2008 we had $33.8 million of our investment portfolio invested in ARS, $18.1 million of which was purchased after December 31, 2007. If the auctions for the securities we own continue to fail, the investments may not be readily convertible to cash until a future auction of these investments is successful, the securities mature, or we sell the securities in the secondary market. Based on our expected cash usage in 2008 and our balance of cash and other investments, we do not anticipate the current illiquidity of these investments will affect our ability to operate our business as usual for at least twelve months.

Based on successful auctions in January 2008 and the continued creditworthiness of our ARS, we determined that the securities did not experience an other than temporary impairment as of December 31, 2007 in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. We will continue to monitor failures in our ARS and consider the impact of future failures on the ARS we hold. For example, although our ARS continue to pay interest according to their stated terms, if the illiquidity continues, these investments may be subject to a decline in value, which would require us to recognize a charge for impairment. We may also be required to sell these investments at prices significantly below par. If this occurs, we may not be able to liquidate these securities to obtain funds when needed, which could negatively affect our ability to fund our operations.

Risks Related to Our Industry

The regulatory approval process is expensive, time consuming and uncertain and may prevent us or our collaboration partners from obtaining approvals for the commercialization of some or all of our product candidates.

The research, testing, manufacturing, selling and marketing of drug candidates are subject to extensive regulation by the FDA and other regulatory authorities in the U.S. and other countries, and regulations may differ from country to country. Neither we nor our collaboration partners are permitted to market our product candidates in the U.S. until we receive approval of a New Drug Application, or NDA, from the FDA. We have not received marketing approval for any of our product candidates. Further, we have not previously prepared an NDA submission for any of our product candidates, which involves compliance with governmental regulations and successful completion of a number of significant and complicated undertakings for which we do not have any prior experience implementing. Obtaining approval of an NDA can be a lengthy, expensive and uncertain process. In addition, failure to comply with FDA and other applicable U.S. and foreign regulatory requirements may subject our company to administrative or judicially imposed sanctions, including warning letters, civil and criminal penalties, injunctions, product seizure or detention, product recalls, total or partial suspension of production and refusal to approve pending NDAs or supplements to approved NDAs.

Regulatory approval of an NDA or NDA supplement is not guaranteed, and the approval process is expensive and may take several years. The FDA also has substantial discretion in the drug approval process. We initiated our Phase 3 clinical studies for Hematide following extensive discussion with the FDA on the design of the program. Based on the nature of these discussions and guidance from the FDA in light of the current regulatory environment, we did not enter into a special protocol assessment, or SPA, with the FDA for our Phase 3 clinical trials for Hematide. Nonetheless, in some instances a SPA could provide more assurance that the design, clinical endpoints, and statistical end analyses resulting from these trials would be acceptable to the FDA to support regulatory approval. Despite the time and expense exerted, failure can occur at any stage, and we could encounter problems that cause us to abandon clinical trials or to repeat or perform additional preclinical studies and clinical trials. The number of preclinical studies and clinical trials that will be required for FDA approval varies depending on the drug candidate, the disease or condition that the drug candidate is designed to address, and the regulations applicable to any particular drug candidate. The FDA can delay, limit or deny approval of a drug candidate for many reasons, including:

- a drug candidate may not be deemed safe or effective;
- FDA officials may not find the data from preclinical studies and clinical trials sufficient;
- The FDA might not approve our or our third-party manufacturer's processes or facilities; or
- The FDA may change its approval policies or adopt new regulations.

Even if we receive regulatory approval for a product candidate, we will be subject to ongoing FDA obligations and continued regulatory review, which may result in significant additional expense and limit our ability to commercialize our future products.

Any regulatory approvals that we or our collaboration partners receive for our product candidates may also be subject to limitations on the indicated uses for which the product may be marketed, or contain requirements for potentially costly post-marketing follow-up studies. In addition, if the FDA approves any of our product candidates, the labeling, packaging, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. The subsequent discovery of previously unknown problems with the drug, including adverse events of unanticipated severity or frequency, may result in restrictions on the marketing of the drug, and could include withdrawal of the drug from the market.

The FDA's policies may change and additional government regulations may be enacted that could prevent or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the U.S. or abroad. If we are not able to maintain regulatory compliance, we might not be permitted to market our future products and we may not achieve or sustain profitability.

Failure to obtain regulatory approval in foreign jurisdictions will prevent us from marketing our products abroad through our Takeda collaboration.

We intend to co-market Hematide in the U.S, and have exclusively licensed Takeda to develop Hematide in international markets. In order to market Hematide or any other future products we advance in the European Union and many other foreign jurisdictions, we must obtain separate regulatory approvals. We have had limited interactions with foreign regulatory authorities, and the approval procedures vary among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. 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 foreign countries or by the FDA. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. Foreign regulatory approvals may not be obtained on a timely basis, if at all. We or Takeda, as part of our Hematide collaboration, may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market.

Foreign governments often impose strict price controls, which may adversely affect our future profitability.

We intend to seek approval to market Hematide in the U.S. and, through our Takeda collaboration, in foreign jurisdictions. If we obtain approval in one or more foreign jurisdictions, we will be subject to rules and regulations in those jurisdictions relating to our product. In some foreign countries, particularly in the European Union, prescription drug pricing is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a drug candidate. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of Hematide or our future products to other available therapies or a clinical trial that studies pharmacoeconomic benefits. If reimbursement of Hematide or our future products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability.

We may incur significant costs complying with environmental laws and regulations, and failure to comply with these laws and regulations could expose us to significant liabilities.

We use hazardous chemicals and radioactive and biological materials in our business and are subject to a variety of federal, state and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these materials. Although we believe our safety procedures for handling and disposing of these materials and waste products comply with these laws and regulations, we cannot eliminate the risk of accidental injury or contamination from the use, storage, handling or disposal of hazardous materials. In the event of contamination or injury, we could be held liable for any resulting damages. We are uninsured for third-party contamination injury.

If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

We face an inherent risk of product liability as a result of the clinical testing of our product candidates in clinical trials and will face an even greater risk if we commercialize any products. We may be held liable if any product we develop causes injury or is found otherwise unsuitable during product

testing, manufacturing, marketing or sale. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Even successful defense would require significant financial and management resources. Regardless of the merit or eventual outcome, liability claims may result in:

- decreased demand for our product candidates;
- injury to our reputation;
- withdrawal of clinical trial participants;
- costs of related litigation;
- diversion of management's attention and resources;
- substantial monetary awards to patients;
- product recalls;
- loss of revenue; and
- the inability to commercialize our product candidates.

Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop. We currently carry product liability insurance covering our clinical studies in the amount of $11 million in the aggregate. However, our insurance may not reimburse us or may not be sufficient to reimburse us for the expenses or losses we may suffer. In addition, insurance coverage is becoming increasingly expensive, and in the future we may not be able to maintain insurance coverage at a reasonable cost or obtain insurance coverage that will be adequate to satisfy any liability that may arise.

Risks Related to the Ownership of Our Common Stock

The market price of our common stock has been highly volatile and is likely to remain highly volatile, and you may not be able to resell your shares at or above your purchase price.

The trading price of our common stock has been highly volatile. For the 52 weeks ended February 15, 2008, the price ranged between a high of $40.24 per share and a low of $16.14 per share. Our stock is expected to be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including:

- actual or anticipated actions taken by regulatory agencies with respect to ESAs generally or specifically as to Hematide;
- new products or services introduced or announced by us or our collaboration partners, or our competitors, including Roche's Mircera, and the timing of these introductions or announcements;
- developments in the Amgen patent infringement litigation and Roche's potential to launch Mircera;
- issuance of patents to competitors, including the expected issuance of patents to J&J in Europe;
- developments in our litigation with J&J, including both substantive and procedural rulings by the arbitration panel;
- actual or anticipated results from, and any delays in, our clinical trials;
- actual or anticipated regulatory approvals or our product candidates or competing products;

- actions taken by regulatory agencies with respect to clinical trials, manufacturing process or sales and marketing activities;
- changes in laws or regulations applicable to our products, including but not limited to clinical trial requirements for approvals;
- the success of our development efforts and clinical trials;
- the success of our efforts to discover, acquire or in-license additional products or product candidates;
- developments concerning our collaborations, including but not limited to those with our sources of manufacturing supply and our commercialization partners;
- actual or anticipated variations in our quarterly operating results;
- announcements of technological innovations by us, our collaborators or our competitors;
- actual or anticipated changes in earnings estimates or recommendations by securities analysts;
- conditions or trends in the biotechnology and biopharmaceutical industries;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- general economic and market conditions and other factors that may be unrelated to our operating performance or the operating performance of our competitors;
- changes in the market valuations of similar companies;
- sales of common stock or other securities by us or our stockholders in the future;
- additions or departures of key scientific or management personnel;
- developments relating to proprietary rights held by us or our competitors;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- trading volume of our common stock; and
- sales of our common stock by us or our stockholders.

In addition, the stock market in general and the market for biotechnology and biopharmaceutical companies in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business and financial condition.

Our principal stockholders and management own a significant percentage of our stock and will be able to exercise significant influence over matters subject to stockholder approval.

As of February 15, 2008, our executive officers, directors and principal stockholders, together with their respective affiliates, owned approximately 63% of our voting stock. Accordingly, these stockholders will be able to exert a significant degree of influence over our management and affairs and over matters requiring stockholder approval, including the election of our board of directors and approval of significant corporate transactions. This concentration of ownership could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from

attempting to obtain control of us, which in turn could have a material and adverse effect on the fair market value of our common stock.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our stock price.

The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. During our review of the results of operations for the quarter ended March 31, 2007, we identified a material weakness in the operation of our internal controls over financial reporting, as defined in Public Company Accounting Oversight Board Standard No. 2, in connection with the accurate completion of deferred income tax assets and liabilities and income tax provision. Also, during the quarter ended June 30, 2007, we identified a material weakness in connection with the accurate completion of collaboration revenue. As of December 31, 2007, these material weaknesses have been fully remediated.

While no material weaknesses were identified as of December 31, 2007, we cannot assure you that material weaknesses will not be identified in future periods. There can be no assurance that we will successfully and timely report on the effectiveness of our internal control over financial reporting in future periods. If we do experience a material weakness in future periods, then investor confidence, our stock price and our ability to obtain additional financing on favorable terms could be adversely affected.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. We continue to implement, improve and refine our disclosure controls and procedures and our internal control over financial reporting.

Future sales of our common stock in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market that were previously restricted from sale, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. In the event that we do raise capital through the sale of additional equity securities, the dilution represented by the additional shares of our equity securities in the public market could cause our stock price to fall, in which case you may not be able to sell your shares of our equity securities at a price equal to or above the price you paid to acquire them.

We are at risk of securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biotechnology and biopharmaceutical companies have experienced significant stock price volatility in recent years. If we were to face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders.

Provisions in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders.

These provisions include:

- authorizing the issuance of "blank check" preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- limiting the removal of directors by the stockholders;
- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- eliminating the ability of stockholders to call a special meeting of stockholders;
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings; and
- our board of directors is classified, consisting of three classes of directors with staggered three-year terms, with each class consisting as nearly as possible of one third of the total number of directors.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We currently lease approximately 84,460 square feet of laboratory and office space in Palo Alto, California under lease agreements that terminate in September 2014. We believe that our facilities adequately meet our present needs.

Item 3. Legal Proceedings.

J&J Intellectual Property Dispute

We have initiated binding arbitration and related litigation with certain subsidiaries of Johnson & Johnson, or J&J, over ownership of intellectual property related to erythropoietin receptor, or EPO-R, agonists (compounds capable of binding to and activating the EPO-R). This intellectual property is the subject of a number of U.S. and international patents and patent applications assigned to Affymax and J&J, including a U.S. patent currently assigned to J&J, several U.S. patents currently assigned to us and a European patent application currently assigned to J&J. See "Risk Factors—Risk Related to Our Business." In this section, we refer to the patents and patent applications subject to the arbitration collectively as the "intellectual property in dispute". We believe that we are the sole owner or co-owner of the intellectual property in dispute, including a European patent application currently naming J&J as sole owner that may issue in the near future and relates to specified ESA peptide compounds. J&J, on the other hand, alleges that they are the sole owner or co-owner of the intellectual property in dispute, including several U.S. patents on which we are currently named as sole owner that relate to specified peptide compounds.

We believe the U.S. intellectual property in dispute does not encompass Hematide and that we can manufacture, commercialize and sell Hematide in the U.S. regardless of the outcome of this arbitration. However, if, through the ongoing arbitration or otherwise, J&J or another potential competitor obtains or possesses patents or patent rights that are deemed to encompass one or more elements of

Hematide, that party could initiate proceedings, an adverse result in which could prevent us from manufacturing or commercializing Hematide, either for ourselves or with Takeda, in the U.S.

If the intellectual property in dispute is deemed broad enough to cover Hematide, then under the laws applicable to most relevant jurisdictions outside the U.S., a finding of joint ownership would permit us to manufacture and sell Hematide, but may not allow us to license third parties to do so. We have entered into a collaboration agreement with Takeda to commercialize Hematide worldwide, so a finding of joint ownership of the patents and applications in question could materially affect our business plans outside the U.S. In the U.S., joint ownership of a patent gives each joint owner the right to license third parties, so even if the patents in question are held to be jointly owned by us and J&J, we do not believe we would be prevented from pursuing our partnership strategy for Hematide in the U.S. If the arbitration panel determines that J&J is the sole owner of one or more of the U.S. patents in the dispute that are assigned to us, J&J may seek to assert such patent against us in the U.S.; however, we believe that we have strong defenses to any assertion that Hematide infringes any claims of these U.S. patents.

The Research and Development Agreement with J&J

In April 1992, Affymax N.V. (a different company from us) entered into a three-year Research and Development Agreement, which we refer to as the "R&D Agreement," with a division of Ortho Pharmaceutical Corporation, a subsidiary of J&J. In 2001, we assumed the rights and obligations of Affymax N.V. under the R&D Agreement and acquired rights to patents and patent applications that comprise much of the intellectual property in dispute.

Under the R&D Agreement, J&J provided Affymax N.V. research funding and Affymax N.V. sought to discover compounds directed at the EPO receptor. The R&D Agreement provided for us to retain rights to our existing technology and identified as our technology our methodologies for creating peptide sequence "libraries", each of which contained billions of different peptide sequences, and methodologies that could be used to determine which if any of the peptide sequences contained in a library would bind to an identified receptor. The R&D Agreement further provided for any invention made by either party to be the property of the party making the invention and that joint inventions would be jointly owned.

Our position is based on the following chronology: From 1992 through 1995, a group of scientists working for Affymax N.V., performed extensive research under the R&D Agreement and discovered numerous peptides and peptide dimers that bind to and activate the EPO-R. These Affymax N.V. scientists started with the Affymax N.V. peptide sequence libraries, conducted numerous tests, experiments and analyses and discovered and identified a set of active peptides that bind to and activate the EPO-R. The Affymax scientists disclosed the inventions and the results of their research to J&J. In November 1993, Affymax N.V., through Affymax Technologies, N.V., a related entity, filed U.S. Patent Application No. 08/155,940, or the '940 application, claiming various of the Affymax N.V. scientists' inventions and identifying four Affymax scientists, and no J&J scientists, as the inventors. Affymax N.V. provided J&J with a draft copy of the '940 application before filing it. The Affymax scientists' research gave rise to numerous other patent applications, including continuation-in-part applications based on and claiming priority from the '940 application, a continuation of one of those applications, and numerous foreign and international patent applications based on one or more of these applications. Ultimately, the '940 application was abandoned in favor of these other applications. In 2001, we acquired the rights, previously held by Affymax N.V. and Affymax Technologies, N.V., to these patents and patent applications. Some of the applications have issued as patents, and these patents and patent applications comprise much of the intellectual property in dispute. Based on the inventions of the Affymax N.V. scientists, we believe we are the sole owner or a co-owner of the intellectual property in dispute.

J&J, however, alleges that it discovered the idea of searching peptide sequence libraries, such as Affymax N.V.'s libraries, to find peptides that bind to and activate the EPO-R, and that the Affymax N.V. scientists did not make inventive contributions when they discovered and identified the specific peptides that bind to and activate the EPO-R. J&J also alleges that it discovered the idea of, and methodology for, dimerizing these peptides to make them more biologically active, and that it provided Affymax with reagents and control substances for use in research under the R&D Agreement, as well as instructions on how to use them. J&J further alleges that Affymax N.V. improperly removed the names of the J&J employees who had been identified as inventors on the parties' joint applications pending before the U.S. Patent and Trademark Office without notifying or consulting J&J. For these reasons, J&J claims that it should be granted sole ownership or joint ownership of the intellectual property in dispute.

Post-R&D Agreement Development Activities

In March 1995, Affymax N.V., Affymax Technologies, N.V. and Affymax Research Institute, or the Affymax Entities, were acquired by Glaxo Wellcome plc. In July 2001, we acquired specified assets from Glaxo Wellcome plc and related entities, including the rights to the R&D Agreement and the rights to specified patents and patent applications that had previously been held by Affymax N.V. and Affymax Technologies, N.V. After the termination of the R&D Agreement in 1995, the Affymax Entities pursued efforts to create a synthetic compound that activated the EPO-R and had the biological and physical properties needed to be a commercially viable pharmaceutical product. Our efforts culminated in the first chemical synthesis of Hematide in 2003.

Patent Applications Filed During and After the R&D Agreement

The intellectual property in dispute relates primarily to the following patents and patent applications: U.S. Patent No. 5,767,078; U.S. Patent Application No. 08/484,135; PCT Application No. PCT/US96/09469 (International Publication No. WO96/40772); European Patent Office application EP96/918,317; Canadian Patent Application No. CA 2228277; Japanese Patent Application No. JP 09-(1997) 501781; Australian Patent No. 732,294; Australian Patent Application AU01/054,337; Australian Patent Application AU04/203,690; U.S. Patent No. 5,773,569; U.S. Patent No. 5,830,851; U.S. Patent No. 5,986,047; European Patent No. EP 0 886,648; PCT Application No. PCT/US96/09810 (International Publication No. WO96/40749); U.S. Patent Application No. 08/155/940; U.S. Patent Application No. 08/484,631; U.S. Patent Application No. 08/484,635; and U.S. Patent Application No. 08/827,570.

In November 1993, the Affymax Entities filed a U.S. patent application (U.S.S.N. 08/155,940), or the '940 application, identifying four of their scientists as inventors. In June 1995, the Affymax Entities filed U.S. Patent Application Nos. 08/484,631 and 08/484,635, or the '631 and '635 applications. These applications were continuation-in-part applications based on and claiming priority from the '940 application. They also included certain subject matter that J&J specifically requested be added. At the time of filing, the '631 and '635 applications listed certain J&J employees as inventors in addition to the Affymax scientists. Prior to filing the '940, '631, and '635 applications, the Affymax Entities provided J&J with drafts and/or copies of the applications or informed them of their intent to file them. On or about June 7, 1996, the Affymax Entities filed PCT Application No. PCT/US96/09810, which was based on and clamed priority from the '631 and '635 applications and has given rise to a European patent (EP 0 866 648), which has been assigned jointly to us and J&J.

On the same day in June 1995 that the Affymax Entities filed the '631 and '635 applications, J&J separately filed U.S. Patent Application No. 08/484,135, or the '135 application, which identified J&J employees as the sole inventors of the described subject matter and J&J as the sole assignee. J&J later filed a PCT application (PCT Application No. PCT/US96/09810) based on and claiming priority from the '135 application, and various foreign patent applications (including in Europe, Canada, Japan and

Australia) based on the PCT application. The parties dispute whether J&J informed the Affymax Entities prior to filing these applications. U.S. Patent No. 5,767,078 and Australian Patent No. 732,294 issued to J&J based on these applications, and other applications are pending, including European patent application EP96/918,317. We claim in the arbitration that we are the sole or joint owner of these patents and applications and any U.S., foreign or international patents or applications based on, claiming priority from or relating to them.

On March 28, 1997, the Affymax Entities filed U.S. Patent Application No. 08/827,570, or the '570 application, a continuation of the '635 application. That day, the Affymax Entities also filed a preliminary amendment and a petition for correction of inventorship in connection with the '570 application, as well as supplemental responses and petitions for correction of inventorship in connection with the '631 and '635 applications. The '631, '635, and '570 applications have now issued to Affymax as U.S. Patents Nos. 5,773,569; 5,830,851; and 5,986,047. J&J alleges that the Affymax Entities filed the '570 application and the above-referenced petitions, preliminary amendment and supplemental responses without notifying or consulting with J&J. J&J claims in the arbitration that it is the sole or joint owner of these patents and applications and any U.S., foreign, or international patents or applications based on, claiming priority from, or relating to them.

J&J's European patent application EP96/918,317, which relates to agonist peptide dimers, could result in a patent being issued to J&J in the near future. In the J&J arbitration proceeding, we have claimed that we should be at least joint owner of this European application. If the patent issues, J&J could seek to enforce this patent against us in Europe. In many European countries, a patent cannot be asserted to stop clinical trials, but in some, a patent holder can seek to enjoin clinical trials.

Litigation and Arbitration Chronology

On June 9, 2004, we filed a civil complaint in the Munich Regional Court in the Federal Republic of Germany against J&J alleging that we are an owner or co-owner of J&J's European patent application relating to agonist peptide dimers (European Patent Application EP96/918,317). In October 2005, J&J filed its response to our complaint, denying our claims of inventorship and ownership. In April 2006, we requested the court to dismiss the complaint so that the issues it raised could be resolved pursuant to the arbitration proceeding described below. The court has done so.

On September 23, 2004, we filed a civil complaint in the U.S. District Court for the Northern District of Illinois, or the Illinois case, against J&J alleging claims for correction of inventorship and ownership of the above-referenced patents and patent applications assigned to J&J, for corresponding declaratory and injunctive relief, for breach of contract, and for unjust enrichment and constructive trust. The complaint alleges that the Affymax N.V. scientists are sole or co-inventors of the intellectual property in dispute, including the above-referenced J&J patents and patent applications, and that we are the sole or co-owner of them. The complaint also alleges that J&J breached the R&D Agreement by, among other things, engaging in a course of conduct designed to obtain patents for itself and to deny us patents on the Affymax scientists' inventions. The complaint further alleges that we have suffered damages as a result of J&J's breaches and that J&J has been unjustly enriched through its misconduct and should be subject to the imposition of a constructive trust.

J&J denied all material claims in our complaint and, among other things, counterclaimed that its employees are the true inventors of the intellectual property in dispute and that it is therefore entitled to sole or co-ownership of the above-referenced patents and patent applications assigned solely or jointly to us (including U.S. Patent Nos. 5,986,047, 5,773,569, and 5,830,851, which are solely assigned to us, and European Patent No. EP 0 866 648, which is assigned jointly to us and J&J). J&J also brought related claims for breach of contract, breach of fiduciary duty, unjust enrichment and constructive trust. J&J alleges, among other things, that the Affymax Entities filed in their own name certain patent applications allegedly claiming inventions of J&J employees without notifying or consulting with J&J, that during patent prosecution the Affymax Entities improperly removed the

names of J&J employees from certain patent applications on which those employees had been identified as inventors, and that these and other alleged breaches entitle J&J to damages and waive all rights we may have had to the intellectual property in dispute.

J&J requested that the Illinois case be dismissed and the matter decided under the R&D Agreement's arbitration provisions. On February 28, 2006, the Illinois court entered an order that the appropriate forum for us and J&J to resolve the inventorship, ownership, breach of contract and related claims was binding arbitration under the American Arbitration Association, or AAA, rules in Illinois. The Illinois court held that the claims pending in the German court were also subject to arbitration and required us to dismiss the German complaint, which we have done. The Illinois court further stated that it will retain jurisdiction over the subject matter during the arbitration in Illinois.

On April 12, 2006, we filed a demand for arbitration with the AAA claiming that we are the owner or co-owner of the intellectual property in dispute and alleging claims for correction of inventorship and ownership of the above-referenced patents and patent applications assigned to J&J, for corresponding declaratory and injunctive relief, for breach of contract, for unjust enrichment and constructive trust, and for breach of fiduciary duty. On May 8, 2006, J&J filed its answer and counterclaims, substantially restating their allegations made in the U.S. and German courts. In April 2007, the Company filed an amended demand for arbitration. In June 2007, J&J filed an amended counterdemand. The AAA has appointed a panel of arbitrators, and the arbitrators have established a schedule for the arbitration. The parties have commenced discovery. In June 2007, J&J filed a motion to compel discovery of information relating to Hematide and then filed a substitute motion to compel. In July 2007, the Company filed an opposition to J&J's motion to compel and a motion for protective order. In September 2007, the arbitrators ruled that J&J can obtain limited discovery on Hematide, but that J&J cannot obtain discovery on Hematide product formulas, sequences, laboratory notebooks containing such information, experimental results, clinical trial results and strategies, or internal business planning. The arbitration hearing is scheduled to occur during the second half of 2008. The outcome of the matter is uncertain and regardless of outcome, the matter may have an adverse impact on the Company because of legal costs, diversion of management resources and other factors.

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. The Company believes there is no other litigation pending that could have, individually or in the aggregate, a material adverse effect on the financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market For Our Common Stock

Our common stock has been traded on the NASDAQ Global Market under the symbol "AFFY" since December 15, 2006. As of February 15, 2008, there were approximately 139 holders of record of our common stock. The following table sets forth, for the periods indicated, the range of high and low closing sales prices of our common stock as quoted on the NASDAQ Global Market for the period since our initial public offering on December 15, 2006.

	High	Low
2007		
4th Quarter	$30.99	$20.35
3rd Quarter	$28.76	$21.77
2nd Quarter	$39.40	$26.96
1st Quarter	$40.47	$31.69

	High	Low
2006		
4th Quarter (from December 15, 2006)	$37.20	$33.80

The closing price for our common stock as reported by the NASDAQ Global Market on February 15, 2008 was $18.22 per share.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

Recent Sales of Unregistered Securities

Not applicable

Use of Proceeds from the Sale of Registered Securities

Our initial public offering of common stock was effected through a Registration Statement on Form S-1, as amended (File No. 333-136125) and a Registration Statement on Form S-1 filed pursuant to Rule 462(b) (File No. 333-139363) that were declared effective by the Securities and Exchange Commission on December 14, 2006. We registered 4,255,000 shares of our common stock for an aggregate offering price of $106,375,000, all of which were sold. The offering was completed after the sale of all 4,255,000 shares. Morgan Stanley & Co. Incorporated acted as the sole book running and lead manager for the offering, Cowen and Company, LLC, Thomas Weisel Partners LLC and RBC Capital Markets acted as co-managers for the offering. Of this amount, $7.4 million was paid in underwriting discount and commissions, and an additional $2.9 million of other expenses were incurred, all of which was incurred during the fiscal year ended December 31, 2006. None of the expenses were paid, directly or indirectly, to directors, officers or persons owning 10% or more of our common stock, or to our affiliates. As of December 31, 2007, the aggregate net proceeds of $96 million from our initial public offering had been used for general corporate purposes, including clinical trials, research and development expenses and general and administrative expenses, with the remainder invested in cash, cash equivalents and investment accounts.

The foregoing represents our best estimate of our use of proceeds for the period indicated. No payments were made to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries and to non-employee directors as compensation for board or board committee service.

Issuer Purchases of Equity Securities

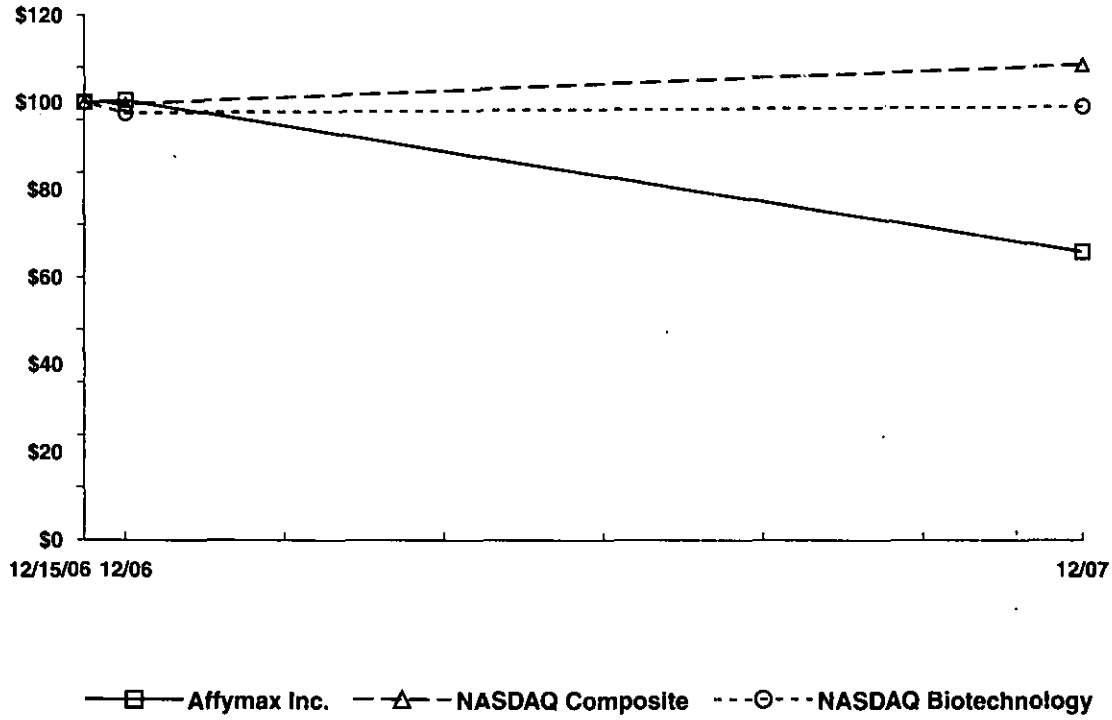
The following table provides information relating to repurchases of our common stock in the three months ended December 31, 2007:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
October 1, 2007 - October 31, 2007	—	$ —	N/A	N/A
November 1, 2007 - November 30, 2007	164	$0.80	N/A	N/A
December 1, 2007 - December 31, 2007	—	$ —	N/A	N/A
Total	164	$0.80	N/A	N/A

(1) The 164 shares of our common stock were repurchased by us from an employee upon termination of services pursuant to the terms and conditions of our 2001 Stock Option/Stock Issuance Plan, which permits us to elect to purchase such shares at the original issuance price.

Performance Graph(1)

The following graph shows the total stockholder return of an investment of $100 in cash on December 15, 2006, the date our common stock first started trading on the NASDAQ Global Market, through December 31, 2007 for (i) our common stock, (ii) the Nasdaq Composite Index (U.S.) and (iii) the Nasdaq Biotechnology Index as of December 31, 2007. Pursuant to applicable Securities and Exchange Commission rules, all values assume reinvestment of the full amount of all dividends, however no dividends have been declared on our common stock to date. The stockholder return shown on the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.



* $100 invested on 12/15/06 in stock or on 11/30/06 in index-including reinvestment of dividends.

(1) This Section is not "soliciting material," is not deemed "filed" with the Commission and is not to be incorporated by reference into any filing of Affymax, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Item 6. Selected Financial Data.

The following selected financial data should be read together with our audited financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other financial information included in this Annual Report on Form 10-K. The selected financial data in this section is not intended to replace our audited financial statements and the accompanying notes. Our historical results are not necessarily indicative of our future results.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands, except per share data)				
Statements of Operations Data:					
Collaboration revenue	$ 44,303	$ 11,688	$ —	$ —	$ —
License and royalty revenue	33	38	74	151	225
Total revenue	44,336	11,726	74	151	225
Operating expenses:					
Research and development	69,398	54,347	24,051	17,338	13,660
General and administrative	24,075	11,089	10,032	4,931	4,953
Amortization of intangible assets	—	—	—	—	6,107
Impairment of assets	—	—	—	—	4,224
Total operating expenses	93,473	65,436	34,083	22,269	28,944
Loss from operations	(49,137)	(53,710)	(34,009)	(22,118)	(28,719)
Interest income	11,393	5,549	1,413	439	357
Interest expense	(14)	(84)	(29)	—	(7)
Other income (expense), net	46	(43)	49	281	172
Net loss before provision for income taxes	(37,712)	(48,288)	(32,576)	(21,398)	(28,197)
Provision for income taxes	5,357	—	—	—	—
Net loss(2)	(43,069)	(48,288)	(32,576)	(21,398)	(28,197)
Accretion of mandatorily redeemable convertible preferred stock	—	(815)	(597)	(105)	(164)
Net loss attributable to common stockholders	$(43,069)	$(49,103)	$(33,173)	$(21,503)	$(28,361)
Net loss per common share:					
Basic and diluted(1)(2)	$ (2.88)	$ (32.56)	$(101.65)	$ (70.39)	$(103.10)
Weighted-average number of common shares used in computing basic and diluted net loss per loss common share	14,941	1,508	326	305	275

	December 31,				
	2007	2006	2005	2004	2003
			(in thousands)		
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 168,337	$ 224,292	$ 57,893	$ 24,720	$ 24,654
Receivable from Takeda	15,331	10,191	—	—	—
Long-term investments	15,655	6,133	—	—	—
Total assets	225,792	249,988	60,960	27,728	28,353
Capitalized lease obligations, net of current	8	140	310	—	—
Mandatorily redeemable convertible preferred stock	—	—	168,784	112,396	92,361
Accumulated deficit	(211,818)	(168,749)	(120,461)	(87,885)	(66,487)
Total stockholders' equity	84,185	116,899	(113,691)	(87,162)	(65,677)

(1) Please see Note 2 to the notes to our audited financial statements for an explanation of the method used to calculate the net loss per common share and the number of shares used in the computation of the per share amounts.

(2) In 2007 and 2006, loss from operations, net loss and basic and diluted net loss per common share include the impact of SFAS No. 123(R) stock-based compensation charges, which were not present in prior years. Please see Notes 2 and 8 to the notes to our audited financial statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a biopharmaceutical company developing novel peptide-based drug candidates to improve the treatment of serious and often life-threatening conditions. Our lead product candidate, Hematide, is designed to treat anemia associated with chronic renal failure and cancer. Anemia is a serious condition in which blood is deficient in red blood cells and hemoglobin. It is common in patients with chronic renal failure, cancer, heart failure, inflammatory diseases and other critical illnesses, as well as in the elderly. If left untreated, anemia may increase the risk of other diseases or death. Hematide is a synthetic peptide-based erythropoiesis stimulating agent, or ESA, designed to stimulate production of red blood cells. Hematide is designed to be longer acting than currently marketed ESAs in the U.S., and therefore has the potential to offer both better care for patients and reduced cost and complexity for healthcare providers.

We are conducting Phase 3 clinical trials in patients suffering from chronic renal failure, on dialysis and pre-dialysis. We are conducting four open-label, randomized controlled clinical trials. Of these trials, two trials are being conducted in pre-dialysis patients and are designed to evaluate the safety and efficacy of Hematide compared to darbepoetin alfa to correct anemia and maintain hemoglobin in a corrected range over time. The other two trials are being conducted in dialysis patients and are designed to evaluate the safety and efficacy of Hematide and its ability to maintain hemoglobin levels in a corrected range compared to epoetin alpha or epoetin beta when switched to Hematide. Analysis of efficacy and safety for all of the Phase 3 studies will be based on assessments of non-inferiority to the comparator drugs. The primary efficacy endpoint will be the mean change in hemoglobin from baseline. Each study is planned to continue until the last patient has been treated for 52 weeks. In addition, the assessment of safety will include a composite cardiovascular endpoint from a pooled safety database. The rate of accrual of these cardiovascular events could affect the duration of the studies if the events accrue at a higher or lower rate than estimated.

Hematide is at an earlier stage of development for chemotherapy induced anemia in comparison to our renal program and as part of our collaboration with Takeda Pharmaceutical Company Limited, or Takeda, Takeda has assumed primary responsibility for regulatory and clinical development activities related to the worldwide oncology program. In January 2008, Takeda initiated a Phase 1 clinical trial for the treatment of chemotherapy-induced anemia in prostate, breast and non-small cell lung cancer patients in the U.S.

To date, we have not generated any product revenue. We have funded our operations primarily through the sale of equity securities, expense reimbursements, license fees and milestone payments from collaborative partners, operating and capital lease financings, interest earned on investments and limited license fees and royalties from licensing intellectual property. Since inception we have incurred net losses and expect to incur substantial and increasing losses for the next several years as we expand our research and development activities and move our product candidates into later stages of development. As of December 31, 2007, we had an accumulated deficit of $211.8 million.

In December 2006, we issued 4,255,000 shares of our common stock in connection with our initial public offering, including the issuance of 555,000 shares upon the full exercise of the underwriters' option to cover over-allotments. The aggregate net proceeds from the offering, including the shares issued upon exercise of the over-allotment option, were approximately $96 million, after deducting underwriting discounts and commissions and other offering expenses.

Research and Development Expenses

Research and development expenses consist of: (i) license fees paid to third parties for use of their intellectual property; (ii) expenses incurred under agreements with contract research organizations and

investigative sites, which conduct a substantial portion of our preclinical studies and all of our clinical trials; (iii) payments to contract manufacturing organizations, which produce our active pharmaceutical ingredient, or API; (iv) payments to consultants; (v) employee-related expenses, which include salaries and related-costs; and (vi) facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities and equipment, depreciation of leasehold improvements and equipment and laboratory and other supplies. All research and development expenses are expensed as incurred.

Although we cannot predict the total amount our future research and development expenses with any degree of certainty, we expect to incur substantially increasing research and development expenses in future periods particularly expenses arising from clinical development activities including the enrollment of our Phase 3 clinical trials. In addition, we may conduct more research and perform preclinical studies and clinical trials for any other product candidates we choose to advance but would seek to enter into collaborations with third parties to participate in the development and commercialization of those product candidates.

The table below sets out our research and development expenses excluding stock-based compensation expenses by project since 2005 as a percentage of total research and development expenses for the applicable period. We commence tracking the costs for a project when we are working with another company or when the related prototype peptide demonstrates significant biological activity, typically in a cell-free assay, and merits substantial increase in the level of effort.

	Hematide	Other Research Programs(1)	Total
2005	78%	22%	100%
2006	90%	10%	100%
2007	91%	9%	100%

(1) Does not include any projects where the expense is 10% or greater of total research and development expenses excluding stock-based compensation expense.

Under the worldwide agreement with Takeda, we will share responsibility for clinical development activities required for U.S. regulatory approval of Hematide. We will have primary responsibility for Hematide's clinical development plan and clinical trials in the dialysis and pre-dialysis indications, while Takeda will have primary responsibility in the chemotherapy induced anemia and anemia of cancer indications. Beginning January 1, 2007, Takeda was responsible for the first $50 million of third party expenses related to development in pursuit of U.S. regulatory approval of Hematide. Of the first $50 million of third-party expenses related to the development in pursuit of U.S. regulatory approval of Hematide to be borne by Takeda, a total of $36.3 million was incurred by both parties through December 31, 2007. We expect that the remaining $13.7 million will be incurred during the first quarter of 2008. Thereafter, Takeda will bear 70% of the third party U.S. development expenses, while we will be responsible for 30% of the expenses. The Company retains responsibility for 100% of its internal development expenses. Takeda will have primary responsibility and bear all costs for Hematide clinical development in support of regulatory approval for all territories outside the United States. Except for Hematide, we cannot forecast with any degree of certainty which of our product candidates, if any, will be subject to future partnerships or how such arrangements would affect our development plans or capital requirements.

The process of conducting preclinical studies and clinical trials necessary to obtain Food and Drug Administration, or FDA approval is costly and time consuming. The probability of success for each product candidate and clinical trial may be affected by a variety of factors, including, among others, the quality of the product candidate's early clinical data, investment in the program, competition,

manufacturing capabilities and commercial viability. As a result of the uncertainties discussed above, the uncertainty associated with clinical trial enrollments and the risks inherent in the development process, we are unable to determine the duration and completion costs of current or future clinical stages of our product candidates or when, or to what extent, we will generate revenues from the commercialization and sale of any of our product candidates. Development timelines, probability of success and development costs vary widely. While we are currently focused on developing our lead product candidate, we anticipate that we will make determinations as to which additional programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as ongoing assessment as to the product candidate's commercial potential. We anticipate developing additional product candidates internally and intend to consider in-licensing product candidates, which will increase our research and development expenses in future periods. We believe that the cash received from Takeda, existing cash, cash equivalents and investments and the interest thereon, will enable us to maintain our currently planned operations through at least mid 2009. However, we will be required to raise additional capital to complete the development and commercialization of Hematide and we will need to raise additional capital to support continued development of our product candidates thereafter. We cannot be certain that that additional funding will be available on acceptable terms, or at all.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, accounting, business and commercial development, information technology, legal and human resources functions. Other general and administrative expenses include facility costs not otherwise included in research and development expenses, patent prosecution and defense costs and professional fees for legal, consulting, auditing and tax services. We expect to incur increasing general and administrative expense in future periods to support our research and development activities, preparation for the New Drug Application for Hematide, costs associated with our J&J litigation and development of commercial capabilities.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments related to revenue recognition and clinical development costs. We base our estimates on historical experience and on various other factors that we believe are 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 our significant accounting policies are more fully described in Note 2 to our audited financial statements appearing elsewhere in this Annual Report on Form 10-K, we believe the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements.

Revenue Recognition

We recognize revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* ("SAB 104"). When evaluating multiple element arrangements, we consider whether the components of the arrangement

represent separate units of accounting as defined in Emerging Issues Task Force ("EITF") Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). Application of this standard requires subjective determinations and requires management to make judgments about the fair value of the individual elements and whether such elements are separable from the other aspects of the contractual relationship.

In February and June 2006, we entered into two separate collaboration agreements with Takeda, or the Arrangement, which have been combined for accounting purposes due to their proximity of negotiation. We evaluated the multiple elements under the combined single arrangement in accordance with the provisions of EITF 00-21. We determined the deliverables do not have value to the customer on a stand alone basis and we were unable to obtain verifiable objective evidence to determine the fair value of the undelivered elements. Accordingly, we concluded that there was a single unit of accounting.

We were unable to determine the period of our performance obligations under the Arrangement as our required participation on the joint steering committee extends for as long as products subject to the collaboration with Takeda are being sold by either of the parties. Accordingly, the contractual term of our joint steering committee obligations was considered indefinite. As a result, revenue for the single unit of accounting was recorded on a proportional performance basis as long as the overall Arrangement was determined to be profitable during the years ended December 31, 2007 and 2006.

We accounted for the Arrangement using a zero profit proportional performance model (i.e., revenue was recognized equal to direct costs incurred, but not in excess of cash received or receivable assuming that the overall Arrangement was expected to be profitable). We used an input based measure, specifically direct costs, to determine proportional performance because we believed that the inputs were representative of the value being conveyed to Takeda through the research and development activities and delivery of the API. We believed that using direct costs as the unit of measure of proportional performance also most closely reflected the level of effort related to our performance under the Arrangement. Direct costs were those costs that directly resulted in the culmination of an earnings process for which Takeda received a direct benefit. The nature of these costs were third party and internal costs associated with conducting clinical trial activities for dialysis and pre-dialysis indications, costs associated with the manufacturing of API and API stability testing, allocated payroll related costs for representatives participating on the joint steering committee and sales and marketing costs during the co-commercialization period. Direct costs specifically excluded costs of a general and administrative nature, upfront payments to manufacturers unrelated to specific product manufactured such as reservation of capacity, cost for API not yet delivered to Takeda, travel and expense related costs, sales and marketing costs during the development period, any research and development costs not associated with Hematide, interest, depreciation and amortization expense.

Amounts resulting from payments received in advance of revenue recognized were recorded as deferred revenue in accordance with the zero profit proportional performance model described above until the earlier of (i) when we can meet the criteria for separate recognition of each element under the guidance of EITF 00-21; or (ii) after we have fulfilled all of our contractual obligations under the Arrangement.

We are required to assess the profitability of the overall Arrangement on a periodic basis throughout the life of the Arrangement when events or circumstances indicate a potential change in facts. Profitability is defined as a net cash inflow resulting from the Arrangement over its life. Such assessment is based on estimates to determine the most likely outcome based on available facts and circumstances at each assessment date. The estimates include the consideration of factors such as the progress and timing of clinical trials, competitive ESAs in the market, the development progress of other potential ESAs, drug related serious adverse events and other safety issues in the clinical trials, pricing reimbursement in relevant markets and historical costs incurred compared to original estimates.

When the periodic assessment or other events or circumstances indicate a loss will result from performance under the Arrangement, we will continue to recognize costs as they are incurred. However, revenue will be deferred until either: (i) the Arrangement becomes profitable, at which point revenue will continue to be recognized, or (ii) the end of the Arrangement.

Effective January 1, 2008, we entered into an amendment to the Arrangement with Takeda. The amendment modifies the ongoing commitments with respect to our participation on the joint steering committee such that the contractual term of that obligation is no longer indefinite. As a result, we determined that we can separate the performance obligations which occur over the development period from the performance obligations that will occur during the commercialization period. As a result of the change in performance period from indefinite to approximately 4.5 years, beginning on January 1, 2008, we will recognize revenue during the development period using the Contingency-Adjusted Performance Model ("CAPM"). The cumulative effect adjustment of $1.4 million for the change of estimate, which results from now being able to estimate the period of performance, will be recognized as additional revenue during the three months ending March 31, 2008. Through the period of the joint steering committee obligation, we expect collaboration revenue to be directly affected by milestone payments and expenses that are eligible for reimbursement from Takeda under the Arrangement in future periods. Upon commercialization, we will recognize revenue from the manufacture and supply of the API upon delivery, if all other SAB 104 criteria for revenue recognition are met. Royalty payments, profit share payments and sales milestone payments will be recognized as revenue when earned, if all other SAB 104 criteria for revenue recognition are met.

Preclinical Study and Clinical Trial Accruals

We estimate our preclinical study and clinical trial expenses based on our estimates of the services received pursuant to contracts with several research institutions and clinical research organizations that conduct and manage preclinical studies and clinical trials on our behalf. The financial terms of these agreements vary from contract to contract and may result in uneven expenses and payment flows. Preclinical study and clinical trial expenses include the following:

- fees paid to contract research organizations in connection with preclinical studies;
- fees paid to contract research organizations and clinical research organizations in connection with clinical trials; and
- fees paid to contract manufacturers and service providers in connection with the production and testing of active pharmaceutical ingredients and drug materials for preclinical studies and clinical trials.

Payments under some of these contracts depend on factors such as the milestones accomplished, successful enrollment of certain numbers of patients, site initiation and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we will adjust the accrual accordingly. If we do not identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates.

Stock-Based Compensation

Through December 31, 2005, we have accounted for stock-based employee compensation arrangements using the intrinsic value method in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, including the Financial Accounting Standards Board, or FASB, Interpretation, or FIN, No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an*

Interpretation of APB Opinion No. 25. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of our common stock and the exercise price of the stock option. For periods prior to December 31, 2005, we have complied with the disclosure-only provisions required by Statement of Financial Accounting Standards, or SFAS, No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123*

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment,* or SFAS No. 123(R), which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. SFAS No. 123(R) revises SFAS No. 123, as amended, and supersedes APB No. 25. We adopted SFAS No. 123(R) using the prospective transition method. Under this method, compensation cost is measured and recognized for all share-based payments granted, modified and settled subsequent to December 31, 2005. In accordance with the prospective transition method, our financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

We account for stock-based compensation arrangements with nonemployees in accordance with SFAS No. 123, as amended by SFAS No. 148, and EITF, No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, using a fair value approach. For stock options granted to nonemployees, the fair value of the stock options is estimated using the Black-Scholes valuation model. This model utilizes the estimated fair value of common stock and requires that, at the date of grant, we make assumptions with respect to the remaining contractual term of the option, the volatility of the fair value of our common stock, risk free interest rates and expected dividend yields of our common stock. Different estimates of volatility and expected term of the option could materially change the value of an option and the resulting expense.

Income Taxes

We account for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN No. 48, that prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. The cumulative effect of adopting FIN No. 48 resulted in no adjustment to retained earnings as of January 1, 2007. However, at the adoption date of January 1, 2007, we had $2.0 million of unrecognized tax benefits which were reduced in the year ended December 31, 2007 by $712,000.

We recorded a $9.4 million FIN No. 48 liability for uncertain income tax positions for the year ended December 31, 2007, which was reflected as a long-term income tax liability on our balance sheet. We adopted a policy to include penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, if they are incurred. For the years ended December 31, 2007, 2006 and 2005 no penalties or interest expense related to income tax positions were recognized. We do not anticipate that any of the unrecognized tax benefits will increase or decrease significantly over the next twelve months.

Results of Operations

Comparison of Years Ended December 31, 2007 and 2006

	Year Ended December 31,		Increase/ (Decrease)	% Increase/ (Decrease)
	2007	2006		
	(in thousands, except percentages)			
Revenue	$ 44,336	$ 11,726	$32,610	278%
Research and development expenses.	69,398	54,347	15,051	28
General and administrative expenses.	24,075	11,089	12,986	117
Interest income (expense), net	11,379	5,465	5,914	108
Other income (expense), net	46	(43)	89	(207)
Provision for income taxes	5,357	—	5,357	100
Net loss	(43,069)	(48,288)	5,219	(11)
Accretion of mandatorily redeemable convertible preferred stock	—	815	(815)	(100)

Revenue. We recognized $44.3 million and $11.7 million of revenue under our Arrangement with Takeda for the years ended December 31, 2007 and 2006, respectively, under the zero profit proportional performance model, as discussed in the notes to our audited financial statements. The increase in revenue was primarily due to the growth in direct costs associated with the increase in clinical trial activity and headcount in connection with Hematide. We recognized immaterial revenues for the years ended December 31, 2007 and 2006 from royalty payments.

Research and Development Expenses. The increase in research and development expenses of $15.1 million was primarily due to an increase of $25.0 million in clinical trial costs resulting principally from additional clinical trials and enrollment of more patients, an increase of $6.1 million in personnel costs resulting from increased headcount and stock-based compensation expenses and a $875,000 technology license fee for which the technological feasibility had not been established and there is no alternative future use. The increase in research and development expenses from the year ended December 31, 2007 to 2006 was lowered by a milestone payment of $17.6 million in connection with the Nektar license that was expensed during the year ended December 31, 2006.

General and Administrative Expenses. The increase in general and administrative expenses was primarily due to an increase of approximately $7.8 million in personnel costs resulting from higher headcount, and stock-based compensation expenses and an increase of $4.3 million in Sarbanes-Oxley, legal and other consulting fees.

Interest Income (Expense), Net. The increase in interest income, net, was due primarily to higher level of cash, cash equivalents and short-term investments during the year.

Other Income (Expense), Net. Other income (expense), net, was immaterial for the years ended December 31, 2007 and 2006.

Provision for Income Taxes. We are subject to federal and California state income tax. We recorded a provision for income taxes for the year ended December 31, 2007. We were in a net operating loss position in 2006 and all prior periods and therefore did not record a provision for income taxes for the year ended December 31, 2006.

Accretion of Mandatorily Redeemable Convertible Preferred Stock. Our convertible preferred stock was redeemable at the request of the holders on or after July 11, 2010. We were accreting the carrying value of the preferred stock to the mandatory redemption amount using the effective interest method through periodic charges to additional paid in capital. We recorded accretion on the preferred stock

through the date of the automatic conversion of all of our outstanding preferred stock into common stock upon the closing of our initial public offering in December 2006.

Comparison of Years Ended December 31, 2006 and 2005

	Year Ended December 31,		Increase/ (Decrease)	% Increase/ (Decrease)
	2006	2005		
	(in thousands, except percentages)			
Revenue	$ 11,726	$ 74	$ 11,652	15,746%
Research and development expenses	54,347	24,051	30,296	126
General and administrative expenses	11,089	10,032	1,057	11
Interest income (expense), net	5,465	1,384	4,081	295
Other income (expense), net	(43)	49	(92)	(188)
Net loss	(48,288)	(32,576)	(15,712)	(48)
Accretion of mandatorily redeemable convertible preferred stock	815	597	218	37

Revenue. We recognized $11.7 million of revenue under our Arrangement with Takeda for the year ended December 31, 2006 under the zero profit proportional performance model, as discussed in the notes to our audited financial statements. We recognized immaterial revenues for the years ended December 31, 2006 and 2005 from royalty payments.

Research and Development Expenses. The increase in research and development expenses was primarily due to a $17.6 million in milestone payments in connection with the Nektar license, an increase of approximately $7 million in clinical trial costs resulting from three additional clinical trials and enrollment of higher number of patients, an increase of approximately $4 million in personnel costs resulting from increased headcount and stock-based compensation expense and an increase in costs associated with the manufacturing and testing of Hematide.

General and Administrative Expenses. The increase in general and administrative expenses was primarily due to an increase of approximately $2 million in personnel costs resulting from higher headcount and increased legal and audit fees, which was decreased by lower stock-based compensation expenses.

Interest Income (Expense), Net. The increase in interest income, net, was due primarily to higher level of cash, cash equivalents and short-term investments as well as higher interest rates during the year.

Other Income (Expense), Net. Other income (expense), net, was immaterial for the years ended December 31, 2006 and 2005.

Accretion of Mandatorily Redeemable Convertible Preferred Stock. Our convertible preferred stock was redeemable at the request of the holders on or after July 11, 2010. We were accreting the carrying value of the preferred stock to the mandatory redemption amount using the effective interest method through periodic charges to additional paid in capital. We recorded accretion on the preferred stock through the date of the automatic conversion of all of our outstanding preferred stock into common stock upon the closing of our initial public offering in December 2006. Pursuant to our previous amended and restated certificate of incorporation, all outstanding shares of preferred stock would have been converted into common stock upon the closing of an offering where the price per share is greater than $15.09, the gross proceeds to us are at least $40 million and we have a pre-offering market capitalization of at least $200 million. We recorded a non-cash charge of $815,000 and $597,000 in the year ended December 31, 2006 and 2005, respectively.

Liquidity and Capital Resources

Since our inception, we have financed our operations through sale of capital stock, license fees, milestone payments and reimbursement for development and commercial expenses and manufacturing costs from collaborative partners, operating and capital lease financing, interest earned on investments and limited license fees and royalties from licensing intellectual property. From inception through December 31, 2007, we have received net proceeds of $257.6 million from the issuance of common stock and convertible preferred stock and $122 million of upfront license fees, a $10 million milestone payment and $24.1 million for the reimbursement of development and commercial expenses and purchase of API from our collaboration agreements with Takeda. Of the first $50 million of third-party expenses related to the development in pursuit of U.S. regulatory approval of Hematide to be borne by Takeda under the Arrangement, a total of $36.3 million was utilized by both parties through December 31, 2007 including $15.3 million in receivables at December 31, 2007. We expect that the remaining $13.7 million will be utilized during the first quarter of 2008. Thereafter, Takeda will bear 70% of the third-party U.S. development expenses, while we will be responsible for 30% of the expenses.

As of December 31, 2007, we had $184.0 million in unrestricted cash, cash equivalents and short-term and long-term investments. Our cash and investment balances are held in a variety of interest bearing instruments, including obligations of U.S. government agencies, corporate bonds, commercial paper, auction rate securities, or ARS, and money market funds. Cash in excess of immediate requirements is invested in accordance with our investment policy primarily with a view to liquidity and capital preservation.

As of December 31, 2007, we had $33.4 million invested in auction rate securities, or ARS, issued principally by municipal entities and rated AAA by a major credit rating agency. ARS are structured to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, usually every 28 days. However, recent events have caused overall liquidity concerns in the ARS markets and have resulted in failed auctions during the first quarter of 2008. In January 2008, all ARS with January auction reset dates had successful auctions at which their interest rates were reset. However, based on failed auctions since then and the expectation of continued failures through the filing date of our Annual Report on Form 10-K, we classified $15.7 million of ARS held as long-term investments as of December 31, 2007. The $15.7 million represents all ARS held as of December 31, 2007 that had not been sold as of February 29, 2008. As of February 29, 2008, we had $33.8 million of our investment portfolio invested in ARS, $18.1 million of which was purchased after December 31, 2007. If the auctions for the securities we own continue to fail, the investments may not be readily convertible to cash until a future auction of these investments is successful, the securities mature, or we sell the securities in the secondary market. Based on our expected cash usage in 2008 and our balance of cash and other investments, we do not anticipate the current illiquidity of these investments will affect our ability to operate our business as usual for at least twelve months.

Based on successful auctions in January 2008 and the continued creditworthiness of our ARS, we determined that the securities did not experience an other than temporary impairment as of December 31, 2007 in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. We will continue to monitor failures in our ARS and consider the impact of future failures on the ARS we hold. For example, although our ARS continue to pay interest according to their stated terms, if the illiquidity continues, these investments may be subject to a decline in value, which would require us to recognize a charge for impairment. We may also be required to sell these investments at

prices significantly below par. If this occurs, we may not be able to liquidate these securities to obtain funds when needed, which could negatively affect our ability to fund our operations.

	Year Ended December 31,	
	2007	2006
	(in thousands)	
Cash, cash equivalents and short-term investments	$168,337	$224,292
Working capital	$139,114	$228,138
Long-term investments	$ 15,655	$ 6,133

	Year Ended December 31,		
	2007	2006	2005
		(in thousands)	
Cash provided by (used in):			
Operating activities	$(45,539)	$ 68,209	$(24,927)
Investing activities	$ 5,175	$(42,889)	$(20,340)
Financing activities	$ 1,038	$107,822	$ 58,009
Capital expenditures (included in investing activities above)	$ (3,525)	$ (1,452)	$ (127)

Net cash used in operating activities for the year ended December 31, 2007 primarily reflects the development of Hematide and other product candidates partially offset by a milestone payment and direct cost reimbursements from Takeda. Cash used in the period includes the net loss, which was reduced in part by non-cash expenses including stock-based compensation, depreciation and amortization, as well as an increase in prepaid expenses, other current assets and other assets primarily as a result of payments made at the initiation of our Phase 3 clinical trials for Hematide. Cash provided by operations includes a $10 million milestone payment, $23.7 million for the reimbursement of development and commercial expenses and purchase of API by Takeda and an increase in accounts payable, long-term income tax liability and other long term liabilities due to the timing of payments. Net cash provided by operating activities for the year ended December 31, 2006 primarily reflects the $122 million of upfront license fees received from Takeda, which was partially offset by the net loss for the period. Net cash used in operating activities for the year ended December 31, 2005 primarily reflects research and development of Hematide and other product candidates, which was reduced in part by non-cash expenses including stock-based compensation and depreciation and amortization. Net cash provided by investing activities for the year ended December 31, 2007 primarily reflects net maturities of investments, which was offset by purchases of property and equipment. Net cash used in investing activities for the years ended December 31, 2006 and 2005 was primarily related to net purchases of investments and, to a lesser extent, purchases of property and equipment. Net cash provided by financing activities for the year ended December 31, 2007 was primarily attributable to the proceeds from the exercise of stock options, as the lock-up agreements with the underwriters of our initial public offering that restricted our stockholders' ability to transfer shares of our common stock did not expire until June 2007, and proceeds from the purchase of common stock in April and October 2007 under our Employee Stock Purchase Plan, which was adopted in December 2006. Net cash provided by financing activities for the year ended December 31, 2006 was primarily attributable to the net proceeds of our initial public offering of $96.1 million and the issuance of Series E preferred stock to Takeda. Net cash provided by financing activities for the year ended December 31, 2005 was primarily attributable to the issuance of Series D preferred stock.

Our future contractual obligations, including financing costs, at December 31, 2007 were as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(in thousands)		
Capitalized lease obligations	$ 141	$ 133	$ 8	$ —	$ —
Operating lease obligations	18,782	2,516	5,229	5,736	5,301
Long-term income tax liability(1)	9,434	—	—	—	—
Total fixed contractual obligations	$28,357	$2,649	$5,237	$5,736	$5,301

(1) With respect our long-term income tax liability as of December 31, 2007, we were unable to make a reasonably reliable estimate of the period of cash settlement, if any, with the respective taxing authorities.

In April 2004, we entered into a License, Manufacturing and Supply Agreement with Nektar Therapeutics AL, Corporation, or Nektar, under which we obtained from Nektar a worldwide, non-exclusive license, with limited rights to grant sublicenses, to certain intellectual property covering pegylation technology to manufacture, develop and commercialize Hematide. In consideration of the license grant, we agreed to pay royalties on the sales of Hematide. We also agreed to pay milestone payments totaling up to $7 million, plus possible additional milestones in connection with our partnering activities relating to Hematide or merger and acquisition activities. In July 2006, we paid Nektar a $17.6 million milestone payment triggered by the collaboration agreements signed with Takeda in February and June 2006.

Under the agreement, we also engaged Nektar for the manufacture and supply of our requirements of bulk poly(ethylene) glycol reagent for the manufacture of Hematide. This relationship is managed by a managing committee formed by representatives from both us and Nektar. Nektar is obligated to engage a third-party manufacturer in the event of Nektar's failure (as defined in the agreement) to supply reagent. This agreement expires, on a country by country basis, upon the expiration of our royalty payment obligations. The agreement may be terminated by either party for the other party's material breach provided that such other party has been given a chance to cure such breach, or by Nektar for our challenge of the validity or enforceability of any patents licensed thereunder.

In September 2006, we entered into an operating lease for additional office space in Palo Alto, California. The lease commenced in November 2006 and terminates in December 2010. The total square footage covered by the new lease is 30,630 square feet, of which we leased 15,315 square feet starting in November 2006 and the remaining 15,315 square feet starting in September 2007.

In December 2006, we entered into an extension of the operating lease for office space in Palo Alto, California. The lease extension commences in October 2007 and terminates in September 2014. The total square footage covered by the lease extension is 84,460 square feet, of which we lease 53,830 square feet starting in October 2007 and the remaining 30,630 square feet starting in January 2011.

Our future capital requirements will depend on many forward looking factors and are not limited to the following:

- the initiation, progress, timing and completion of preclinical studies and clinical trials for our drug candidates and potential drug candidates;
- our ability to maintain and achieve milestones under our collaboration agreements with Takeda;
- costs of litigation;

- outcome, timing and cost of regulatory approvals;
- delays that may be caused by changing regulatory requirements;
- the number of drug candidates that we pursue;
- the costs involved in filing and prosecuting patent applications and enforcing and defending patent claims;
- timing and terms of future in-licensing and out-licensing transactions;
- the cost and timing of establishing sales, marketing and distribution capabilities;
- cost of procuring clinical and commercial supplies of our product candidates; and
- the extent to which we acquire or invest in businesses, products or technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

We believe that the existing cash, cash equivalents and investments together with the interest thereon, will enable us to maintain our currently planned operations through at least mid 2009. However, we expect that we will need to raise additional capital to complete the development and commercialization of Hematide. Our capital requirements are likely to increase. As a result, we may need to raise additional funds to support our operations, and such funding may not be available to us on acceptable terms, or at all. If we are unable to raise additional funds when needed we may not be able to continue development of our product candidates or we could be required to delay, scale back or eliminate some or all of our development programs and other operations. We may seek to raise additional funds through public or private financing, strategic partnerships or other arrangements. Any additional equity financing may be dilutive to stockholders and debt financing, if available, may involve restrictive covenants. If we raise funds through collaborative or licensing arrangements, we may be required to relinquish, on terms that are not favorable to us, rights to some of our technologies or product candidates that we would otherwise seek to develop or commercialize ourselves. Our failure to raise capital when needed may harm our business and operating results.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective commencing with our fiscal year 2008 annual financial statements and fiscal 2009 for certain non-financial assets and liabilities. We are currently assessing the potential impact that the adoption of SFAS No. 157 will have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115,* or SFAS No. 159, which is effective January 1, 2008. SFAS No. 159 permits us to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is expected to expand the use of fair value measurement, with is consistent with the Board's long-term measurement objectives for accounting for financial instruments. We are currently evaluating the impact, if any, that the adoption of SFAS No. 159 will have on our financial statements on the adoption date of January 1, 2008.

In June 2007, the EITF issued Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*, or EITF No. 07-3, which is effective for fiscal years beginning after December 15, 2007. EITF No. 07-3 requires us to defer and capitalize nonrefundable advance payments for research and development activities. Such amounts will be recognized as expenses as the goods are delivered or the services are performed. If we do not expect the goods to be delivered or the services to be performed, the capitalized amounts should be expensed. We believe that the adoption of EITF No. 07-3 will not have a significant impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS No. 141(R). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. We are currently assessing the potential impact that the adoption of SFAS No. 141(R) will have on our financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements, or SFAS No. 160. SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes reporting requirements that identify and distinguish between the interest of the parent and the interest of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the potential impact that the adoption of SFAS No. 160 will have on our financial statements.

Off-Balance Sheet Arrangements

There were no significant off-balance sheet arrangements at December 31, 2007.

Item 7A. Quantitative and Qualitative Disclosure of Market Risks

Interest Rate Risk

Our exposure to market risk is confined to our cash, cash equivalents and investments. We do not use derivative financial instruments in our investment portfolio. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we maintain a portfolio of cash equivalents and investments in a variety of securities of high credit quality. The securities in our investment portfolio are not leveraged, are classified as available for sale and are subject to minimal interest rate risk. We currently do not hedge interest rate exposure. We do not believe that a decrease in interest rates would have a material negative impact on the value of our investment portfolio.

As of December 31, 2007, we had $33.4 million invested in auction rate securities, or ARS, issued principally by municipal entities and rated AAA by a major credit rating agency. ARS are structured to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, usually every 28 days. However, recent events have caused overall liquidity concerns in the ARS markets and have resulted in failed auctions during the first quarter of 2008. In January 2008, all ARS with January auction reset dates had successful auctions at which their interest rates were reset. However, based on failed auctions since then and the expectation of continued failures

through the filing date of our Annual Report on Form 10-K, we classified $15.7 million of ARS held as long-term investments as of December 31, 2007. The $15.7 million represents all ARS held as of December 31, 2007 that had not been sold as of February 29, 2008. As of February 29, 2008 we had $33.8 million of our investment portfolio invested in ARS, $18.1 million of which was purchased after December 31, 2007. If the auctions for the securities we own continue to fail, the investments may not be readily convertible to cash until a future auction of these investments is successful, the securities mature, or we sell the securities in the secondary market. Based on our expected cash usage in 2008 and our balance of cash and other investments, we do not anticipate the current illiquidity of these investments will affect our ability to operate our business as usual for at least twelve months.

Based on successful auctions in January 2008 and the continued creditworthiness of our ARS, we determined that the securities have did not experience an other than temporary impairment as of December 31, 2007 in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. We will continue to monitor failures in our ARS and consider the impact of future failures on the ARS we hold. For example, although our ARS continue to pay interest according to their stated terms, if the illiquidity continues, these investments may be subject to a decline in value, which would require us to recognize a charge for impairment. We may also be required to sell these investments at prices significantly below par. If this occurs, we may not be able to liquidate these securities to obtain funds when needed, which could negatively affect our ability to fund our operations.

The table below presents the weighted-average interest rates and related carrying amounts of our investment portfolio as of December 31, 2007 and 2006:

	2007		2006	
	Weighted-average Interest Rate	Carrying Amount	Weighted-average Interest Rate	Carrying Amount
		(in thousands)		(in thousands)
Cash equivalents	4.91%	$106,282	5.30%	$147,354
Short-term investments . .	5.37%	$ 60,122	5.22%	$ 76,751
Long-term investments . .	6.14%	$ 15,655	5.15%	$ 6,133

Foreign Exchange Risk

We have no investments denominated in foreign currencies, and therefore our investments are not subject to foreign currency exchange risk. At each quarter end, we may have liabilities for costs incurred by overseas suppliers of goods or services and clinical trial programs that are denominated in foreign currencies that are not hedged because of their small size, uncertainty of payment date, and/or short time until settlement. An increase or decrease in exchange rates on these unhedged exposures may affect our operating results.

Item 8. Financial Statements and Supplementary Data.

Our financial statements and notes thereto appear on pages 64 to 96 of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Affymax, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Affymax, Inc. at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2007). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the financial statements, effective January 1, 2006, the Company changed the manner in which it accounts for stock-based compensation. In addition, as discussed in Note 2 to the financial statements, effective January 1, 2007, the Company changed the manner in which it accounts for uncertainty in income taxes.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 12, 2008

AFFYMAX, INC.

BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 108,215	$ 147,541
Restricted cash	11	1,051
Short-term investments	60,122	76,751
Receivable from Takeda	15,331	10,191
Deferred tax assets	1,810	—
Prepaid expenses and other current assets	9,323	4,576
Total current assets	194,812	240,110
Property and equipment, net	4,470	2,014
Restricted cash	1,135	1,135
Long-term investments	15,655	6,133
Deferred tax assets, net of current	8,272	—
Other assets	1,448	596
Total assets	$ 225,792	$ 249,988
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 9,348	$ 5,258
Accrued liabilities	5,990	6,421
Income taxes payable	739	—
Deferred revenue	39,488	—
Capitalized lease obligations, current	133	293
Total current liabilities	55,698	11,972
Deferred revenue, net of current	75,911	120,821
Long term income tax liability	9,434	—
Capitalized lease obligations, net of current	8	140
Other long term liabilities	556	156
Total liabilities	141,607	133,089
Commitments and contingencies (Note 5)		
Stockholders' equity		
Common stock: $0.001 par value, 100,000,000 shares authorized; 15,128,959 and 14,878,304 shares issued and outstanding at December 31, 2007 and 2006, respectively	15	15
Additional paid-in capital	296,035	285,771
Deferred stock-based compensation	(28)	(94)
Accumulated deficit	(211,818)	(168,749)
Accumulated other comprehensive loss	(19)	(44)
Total stockholders' equity	84,185	116,899
Total liabilities and stockholders' equity	$ 225,792	$ 249,988

The accompanying notes are an integral part of these financial statements.

AFFYMAX, INC.

STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Collaboration revenue	$ 44,303	$ 11,688	$ —
License and royalty revenue	33	38	74
Total revenue	44,336	11,726	74
Operating expenses			
Research and development	69,398	54,347	24,051
General and administrative	24,075	11,089	10,032
Total operating expenses	93,473	65,436	34,083
Loss from operations	(49,137)	(53,710)	(34,009)
Interest income	11,393	5,549	1,413
Interest expense	(14)	(84)	(29)
Other income (expense), net	46	(43)	49
Net loss before provision for income taxes	(37,712)	(48,288)	(32,576)
Provision for income taxes	5,357	—	—
Net loss	(43,069)	(48,288)	(32,576)
Accretion of mandatorily redeemable convertible preferred stock	—	(815)	(597)
Net loss attributable to common stockholders	$(43,069)	$(49,103)	$(33,173)
Net loss per common share:			
Basic and diluted	$ (2.88)	$ (32.56)	$(101.65)
Weighted-average number of common shares used in computing basic and diluted net loss per common share	14,941	1,508	326

The accompanying notes are an integral part of these financial statements.

AFFYMAX, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Balance at December 31, 2004	319,481	$ —	$ 723	$ —	$ (87,885)	$ —	$ (87,162)
Issuance of common stock upon exercise of stock options	13,250	—	11	—	—	—	11
Accretion on mandatorily redeemable convertible preferred stock	—	—	(597)	—	—	—	(597)
Deferred stock-based compensation	—	—	4,710	(4,710)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	4,001	—	—	4,001
Reversal of deferred stock-based compensation due to cancellation	—	—	(300)	300	—	—	—
Nonemployee stock-based compensation	—	—	300	—	—	—	300
Issuance of warrants to purchase common stock	—	—	2,353	—	—	—	2,353
Components of other comprehensive loss:							
Net loss	—	—	—	—	(32,576)	—	(32,576)
Change in unrealized gain (loss) on marketable securities	—	—	—	—	—	(21)	(21)
Total comprehensive loss	—	—	—	—	—	—	(32,597)
Balance at December 31, 2005	332,731	—	7,200	(409)	(120,461)	(21)	(113,691)

AFFYMAX, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Issuance of common stock upon exercise of stock options	202,401	1	150	—	—	—	151
Conversion of Series A preferred stock	848,293	1	22,999	—	—	—	23,000
Conversion of Series C preferred stock	6,626	—	100	—	—	—	100
Revision of allocated fair value of warrants	—	—	(247)	—	—	—	(247)
Accretion on mandatorily redeemable convertible preferred stock	—	—	(815)	—	—	—	(815)
Deferred stock-based compensation	—	—	(809)	809	—	—	—
Amortization of deferred stock-based compensation	—	—	—	(476)	—	—	(476)
Employee stock-based compensation under SFAS No. 123(R)	—	—	2,152	—	—	—	2,152
Reversal of deferred stock-based compensation due to cancellations	—	—	18	(18)	—	—	—
Nonemployee stock-based compensation	—	—	346	—	—	—	346
Repurchase of common stock	(880)	—	(1)	—	—	—	(1)
Conversion of Series C warrant to common stock warrant	—	—	56	—	—	—	56
Conversion of preferred stock to common stock upon IPO	8,993,572	9	156,719	—	—	—	156,728
Issuance of common stock upon exercise of warrant for cash	107,268	—	1,824	—	—	—	1,824
Issuance of common stock upon cashless exercise of warrants	133,293	—	—	—	—	—	—
Proceeds from common stock issued upon IPO, net of issuance costs	4,255,000	4	96,081	—	—	—	96,085
Elimination of fractional shares resulting from reverse stock split	—	—	(2)	—	—	—	(2)
Components of other comprehensive loss:							
Net loss	—	—	—	—	(48,288)	—	(48,288)
Change in unrealized gain (loss) on marketable securities	—	—	—	—	—	(23)	(23)
Total comprehensive loss	—	—	—	—	—	—	(48,311)
Balance at December 31, 2006	14,878,304	15	285,771	(94)	(168,749)	(44)	116,899

AFFYMAX, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Issuance of common stock upon exercise of stock options	213,454	—	507	—	—	—	507
Issuance of common stock related to the employee stock purchase plan	42,228		905				905
Deferred stock-based compensation	—	—	(445)	445	—	—	—
Amortization of deferred stock-based compensation	—	—	—	(413)	—	—	(413)
Employee stock-based compensation under SFAS No. 123(R)	—	—	7,082	—	—	—	7,082
Reversal of deferred stock-based compensation due to cancellations	—	—	(34)	34	—	—	—
Nonemployee stock-based compensation	—	—	159	—	—	—	159
Repurchase of common stock	(5,027)	—	(15)	—	—	—	(15)
Tax benefits related to employee stock-based compensation	—	—	2,135	—	—	—	2,135
Capitalized IPO costs	—	—	(30)	—	—	—	(30)
Components of other comprehensive loss:							
Net loss	—	—	—	—	(43,069)	—	(43,069)
Change in unrealized gain (loss) on marketable securities	—	—	—	—	—	25	25
Total comprehensive loss	—	—	—	—	—	—	(43,044)
Balance at December 31, 2007	15,128,959	$15	$296,035	$(28)	$(211,818)	$(19)	$ 84,185

The accompanying notes are an integral part of these financial statements.

AFFYMAX, INC.
STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities			
Net loss	$ (43,069)	$ (48,288)	$ (32,576)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	1,067	704	729
Amortization of discount/premium on investments	(453)	(181)	(162)
Stock-based compensation expense	6,828	2,022	4,301
Deferred tax benefit	(10,082)	—	—
Tax benefits related to employee stock-based compensation	2,135	—	—
Interest expense related to common stock warrants	—	56	—
Gain on disposal of fixed assets	(28)	(11)	(57)
Realized gain on investments	(45)	46	—
Changes in operating assets and liabilities:			
Receivable from Takeda	(5,140)	(10,191)	—
Prepaid expenses and other current assets	(4,747)	(4,368)	(102)
Other assets	(852)	1,153	100
Accounts payable	4,090	2,778	1,675
Accrued liabilities	(394)	3,692	1,333
Income taxes payable	739	—	—
Deferred revenue	(5,422)	120,821	—
Income tax liability	9,434	—	—
Other long term liabilities	400	(24)	(168)
Net cash provided by (used in) operating activities	(45,539)	68,209	(24,927)
Cash flows from investing activities			
Purchases of property and equipment	(3,525)	(1,452)	(127)
Purchases of marketable securities	(243,758)	(226,999)	(141,031)
Maturities of marketable securities	251,388	187,721	120,741
Proceeds from sale of property and equipment	30	27	77
Change in restricted cash	1,040	(2,186)	—
Net cash provided by (used in) investing activities	5,175	(42,889)	(20,340)
Cash flows from financing activities			
Repurchases of common stock	(15)	(1)	—
Proceeds from issuance of common stock upon exercise of stock options, including early exercise of stock options	470	204	11
Proceeds from issuance of common stock under employee stock purchase plan	905	—	—
Proceeds from issuance of common stock upon exercise of common stock warrant	—	1,824	—
Proceeds from issuance of preferred stock, net of issuance costs	—	9,982	58,144
Proceeds from IPO, net of issuance costs	(30)	96,085	—
Principal payments under capital lease obligations	(292)	(272)	(146)
Net cash provided by financing activities	1,038	107,822	58,009
Net increase (decrease) in cash and cash equivalents	(39,326)	133,142	12,742
Cash and cash equivalents at beginning of the year	147,541	14,399	1,657
Cash and cash equivalents at end of the year	$ 108,215	$ 147,541	$ 14,399
Supplemental disclosures of cash flow information			
Income taxes paid	$ 3,131	$ 1	$ 1
Interest paid	14	27	26
Noncash investing and financing activities			
Accretion on mandatorily redeemable convertible preferred stock	—	815	597
Change in unrealized loss on marketable securities	25	(23)	(21)
Deferred stock-based compensation, net of cancellations	(479)	(791)	4,410
Issuance of warrants to purchase common stock/(Revision of allocated fair value of warrants)	—	(247)	2,353
Additions to property and equipment under capital lease obligations	—	172	679
Conversion of Series A preferred stock	—	23,000	—
Conversion of Series C preferred stock	—	100	—
Conversion of preferred stock upon IPO	—	156,728	—

The accompanying notes are an integral part of these financial statements.

1. The Company

Affymax, Inc. (the "Company"), a Delaware corporation, was incorporated on July 20, 2001. The Company is a biopharmaceutical company developing novel peptide-based drug candidates to improve the treatment of serious and often life-threatening conditions. The Company's lead product candidate, Hematide, is designed to treat anemia associated with chronic renal failure and cancer. Hematide is a synthetic peptide-based erythropoiesis stimulating agent, or ESA, designed to stimulate production of red blood cells. The Company is conducting Phase 3 clinical trials in patients suffering from chronic renal failure, on dialysis and pre-dialysis.

In December 2006, the Company completed its initial public offering of 4,255,000 shares of its common stock at a public offering price of $25.00 per share, including the underwriters' exercise of their option to purchase an additional 555,000 shares to cover over-allotments. The aggregate net cash proceeds from the offering, including the shares issued upon exercise of the over-allotment option, were approximately $96.1 million, after deducting the underwriting discount and commissions and other offering expenses.

During the year ended December 31, 2007, the Company commenced its principal business operations and has exited the development stage. Prior to that from its inception, the Company was a development stage company in accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 7, *Accounting and Reporting by Development Stage Enterprises.*

2. Summary of Significant Accounting Policies

Reverse Stock Split

In October 2006, the Company's board of directors approved a one-for-four reverse stock split of the Company's common stock and redeemable convertible preferred stock, which was approved by the Company's stockholders in November 2006. The split became effective in November 2006 upon the filing of an amendment to the restated certificate of incorporation. All share and per share amounts included in the Company's financial statements have been adjusted to reflect this stock split for all periods presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market value. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

2. Summary of Significant Accounting Policies (Continued)

Restricted Cash

Restricted cash represents cash for certificates of deposit for credit guarantees, a letter of credit for customs bond and an irrevocable letter of credit related to the lease of office space.

Concentration of Risk and Uncertainties

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and investments. The Company deposits excess cash in accounts with three major financial institutions in the United States. Deposits in these banks may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents. The Company's guidelines for investment of its excess cash are designed to maintain safety and liquidity through its policies on diversification and investment maturity.

The Company has experienced significant operating losses since inception. At December 31, 2007, the Company had an accumulated deficit of approximately $211.8 million. The Company has generated no revenue from product sales to date. The Company has funded its operations to date principally from the sale of securities and collaboration agreements. The Company expects to incur substantial additional operating losses for the next several years and may need to obtain additional financing in order to complete the clinical development of Hematide and other product candidates, launch and commercialize and product candidates for which it receives regulatory approval, continue research and development programs and license or acquire additional product candidates. There can be no assurance that such financing will be available or will be at terms acceptable to the Company.

The Company is currently developing its first product offering and has no products that have received regulatory approval. Any products developed by the Company will require approval from the U.S. Food and Drug Administration ("FDA") or foreign regulatory agencies prior to commercial sales. There can be no assurance that the Company's products will receive the necessary approvals. If the Company is denied such approvals or such approvals are delayed, it could have a material adverse effect on the Company. To achieve profitable operations, the Company must successfully develop, test, manufacture and market products. There can be no assurance that any such products can be developed successfully or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect on the Company's future financial results.

Fair Value of Financial Instruments

For financial instruments consisting of cash and cash equivalents, receivable from Takeda, accounts payable and accrued liabilities included in the Company's financial statements, the carrying amounts are reasonable estimates of fair value due to their short maturities. Estimated fair values for short-term and long-term investments, which are separately disclosed elsewhere, are based on quoted market prices for the same or similar instruments. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of lease obligations approximates fair value.

Investments

Investments are classified as available-for-sale in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and are carried at their market value at the balance

2. Summary of Significant Accounting Policies (Continued)

sheet date. Realized gains and losses on sales of all such securities are reported in earnings and computed using the specific identification method. Unrealized gains and losses are reported as a separate component of stockholders' equity until realized.

As of December 31, 2007, the Company had $33.4 million invested in auction rate securities ("ARS") issued principally by municipal entities and rated AAA by a major credit rating agency. ARS are structured to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, usually every 28 days. The underlying securities have stated or contractual maturities that are generally greater than one year. The ARS are recorded at their par value, which has been considered fair value. Typically, the carrying value of ARS approximate fair value due to the frequent resetting of the interest rates. However, recent events have caused overall liquidity concerns in the ARS markets and have resulted in failed auctions during the first quarter of 2008. In January 2008, all ARS with January auction reset dates had successful auctions at which their interest rates were reset. However, based on failed auctions since then and the expectation of continued failures through the filing date of the Company's Annual Report on Form 10-K, the Company classified $15.7 million of ARS held as long-term investments as of December 31, 2007. The $15.7 million represents all ARS held as of December 31, 2007 that had not been sold as of February 29, 2008. As of February 29, 2008 the Company had $33.8 million of its investment portfolio invested in ARS, $18.1 million of which was purchased after December 31, 2007. If the auctions for the securities the Company owns continue to fail, the investments may not be readily convertible to cash until a future auction of these investments is successful, the securities mature, or the Company sells the securities in the secondary market.

Based on successful auctions in January 2008 and the continued creditworthiness of our ARS, the Company determined that the securities did not experience an other than temporary impairment as of December 31, 2007 in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company will continue to monitor failures in its ARS and consider the impact of future failures on the ARS it holds and whether an other than temporary impairment exists.

Mandatorily Redeemable Convertible Preferred Stock

The carrying value of the previously outstanding Series A, Series B, Series C and Series D Mandatorily Redeemable Convertible Preferred Stock was increased by periodic accretion, using the effective interest method, so that the carrying amount would equal the redemption value at the redemption date. The Company recorded accretion on the mandatorily redeemable convertible preferred stock through the date of the automatic conversion of all of its outstanding preferred stock into common stock upon the closing of its initial public offering in December 2006.

Research and Development

All research and development costs are expensed as incurred.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives of the assets, generally three to five years. Assets under capital lease and

2. Summary of Significant Accounting Policies (Continued)

leasehold improvements are amortized over the lesser of their estimated useful lives or the term of the related lease. Maintenance and repairs are charged to operations as incurred.

Revenue Recognition

The Company recognizes revenue in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* ("SAB 104"). When evaluating multiple element arrangements, the Company considers whether the components of the arrangement represent separate units of accounting as defined in Emerging Issues Task Force ("EITF") Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"). Application of this standard requires subjective determinations and requires management to make judgments about the fair value of the individual elements and whether such elements are separable from the other aspects of the contractual relationship.

The Company has entered into two separate collaboration agreements (the "Arrangement") with Takeda Pharmaceutical Company Limited, or Takeda, which have been combined for accounting purposes due to their proximity of negotiation. The Company evaluated the multiple elements under the combined single arrangement in accordance with the provisions of EITF 00-21. As the Company was unable to determine the stand-alone value of the delivered elements and obtain verifiable objective evidence to determine the fair value of the undelivered elements, the Company concluded that there was a single unit of accounting.

The Company was unable to determine the period of its performance obligations under the Arrangement as the Company's required participation on the joint steering committee extends for as long as products subject to the collaboration with Takeda are being sold by either of the parties. Accordingly, the contractual term of the Company's joint steering committee obligations was considered indefinite. As a result, revenue for the single unit of accounting was recorded on a proportional performance basis as long as the overall Arrangement was determined to be profitable during the years ended December 31, 2007 and 2006.

The Company accounted for the Arrangement using a zero profit proportional performance model (i.e., revenue was recognized equal to direct costs incurred, but not in excess of cash received or receivable assuming that the overall Arrangement was expected to be profitable). The Company used an input based measure, specifically direct costs, to determine proportional performance because the Company believed that the inputs were representative of the value being conveyed to Takeda through the research and development activities and delivery of the active pharmaceutical ingredients ("API"). The Company believed that using direct costs as the unit of measure of proportional performance also most closely reflected the level of effort related to the Company's performance under the Arrangement. Direct costs were those costs that directly resulted in the culmination of an earnings process for which Takeda received a direct benefit. The nature of these costs were third party and internal costs associated with conducting clinical trial activities for dialysis and pre-dialysis indications, costs associated with the manufacturing of API and API stability testing, allocated payroll related costs for representatives participating on the joint steering committee and sales and marketing costs during the co-commercialization period. Direct costs specifically excluded costs of a general and administrative nature, upfront payments to manufacturers unrelated to specific product manufactured such as reservation of capacity, cost for API not yet delivered to Takeda, travel and expense related costs, sales and marketing costs during the development period, any research and development costs not associated

2. Summary of Significant Accounting Policies (Continued)

with Hematide, interest, depreciation and amortization expense. Revenue will be recognized equal to direct costs incurred, but not in excess of cash received or receivable.

Amounts resulting from payments received in advance of revenue recognized are recorded as deferred revenue until the earlier of (i) when the Company can meet the criteria for separate recognition of each element under the guidance of EITF 00-21 or (ii) after the Company has fulfilled all of its contractual obligations under the Arrangement.

The Company is required to assess the profitability of the overall Arrangement on a periodic basis throughout the life of the Arrangement when events or circumstances indicate a potential change in facts. Profitability is defined as a net cash inflow resulting from the Arrangement over its life. Such assessment is based on estimates to determine the most likely outcome based on available facts and circumstances at each assessment date. The estimates include the consideration of factors such as the progress and timing of clinical trials, competitive ESAs (erythropoiesis stimulating agents) in the market, drug related serious adverse events and other safety issues in the clinical trials, pricing reimbursement in relevant markets and historical costs incurred compared to original estimates. When the periodic assessment or other events or circumstances indicate a loss will result from performance under the Arrangement, costs will continue to be recognized as they are incurred. However, revenue will be deferred until either: (i) the Arrangement becomes profitable, at which point revenue will continue to be recognized, or (ii) the end of the Arrangement.

Effective January 1, 2008, the Company entered into an amendment to the Arrangement with Takeda. The amendment modifies the ongoing commitments with respect to the Company's participation on the joint steering committee such that the contractual term of that obligation is no longer indefinite. As a result, the Company determined that it can separate the performance obligations which occur over the development period from the performance obligations that will occur during the commercialization period. As a result of the change in performance period from indefinite to approximately 4.5 years, beginning on January 1, 2008, the Company will recognize revenue during the development period using the Contingency-Adjusted Performance Model. The cumulative effect adjustment of $1.4 million for the change of estimate, which results from now being able to estimate the period of performance, will be recognized as additional revenue during the three months ending March 31, 2008. Upon commercialization, the Company will recognize revenue from the manufacture and supply of the API upon delivery, if all other SAB 104 criteria for revenue recognition are met. Royalty payments, profit share payments and sales milestone payments will be recognized as revenue when earned, if all other SAB 104 criteria for revenue recognition are met.

Comprehensive Loss

Comprehensive loss generally represents all changes in stockholders' equity except those resulting from investments or contributions by stockholders. The Company's unrealized gains (losses) on available-for-sale securities represent the components of other comprehensive loss that are excluded from the net loss.

Segment Information

The Company operates in one business segment, which encompasses all the geographical regions. Management uses one measurement of profitability and does not segregate its business for internal reporting.

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company accounts for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN No. 48"), which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The cumulative effect of adopting FIN No. 48 resulted in no adjustment to retained earnings as of January 1, 2007.

Net Loss per Common Share

Basic and diluted net loss per common share is computed using the weighted-average number of shares of common stock outstanding during the year. Stock options, common stock subject to repurchase, warrants, mandatorily redeemable convertible preferred stock and common stock issuable pursuant to the Employee Stock Purchase Plan were not included in the diluted net loss per common share calculation for all years presented because the inclusion of such shares would have had an antidilutive effect.

	Year Ended December 31,		
	2007	2006	2005
	(in thousands, except per share data)		
Numerator:			
Net loss attributable to common stockholders	$(43,069)	$(49,103)	$(33,173)
Denominator:			
Weighted-average common shares outstanding	14,957	1,529	327
Less: Weighted-average unvested common shares subject to repurchase	(16)	(21)	(1)
Weighted-average number of common shares used in computing basic and diluted net loss per common share	14,941	1,508	326
Basic and diluted net loss per common share	$ (2.88)	$ (32.56)	$(101.65)

2. Summary of Significant Accounting Policies (Continued)

The following were excluded from the computation of diluted net loss per common share for the years presented because including them would have an antidilutive effect (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Mandatorily redeemable convertible preferred stock (as if converted)	—	—	9,280
Options to purchase common stock	2,130	1,333	700
Common stock subject to repurchase	8	31	2
Common stock issuable pursuant to the Employee Stock Purchase Plan	10	2	—
Warrants to purchase common stock	2	2	438
Warrants to purchase mandatorily redeemable convertible preferred stock	—	—	2

Stock-Based Compensation

Prior to January 1, 2006 the Company accounted for stock-based employee compensation arrangements using the intrinsic value method in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, including the FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25*. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's common stock and the exercise price of the stock option.

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, using the prospective transition method, which requires the measurement and recognition of compensation expense for all share-based payment awards granted, modified and settled to the Company's employees and directors after January 1, 2006. The Company's financial statements as of and for the year ended December 31, 2007 and 2006 reflect the impact of SFAS No. 123(R). In accordance with the prospective transition method, the Company's financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

The Company accounts for equity instruments issued to nonemployees in accordance with the provisions of Emerging Issues Task Force No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ("EITF 96-18"). The equity instruments, consisting of stock options, are valued using the Black-Scholes valuation model. The measurement of stock-based compensation is subject to periodic adjustments as the underlying equity instruments vest.

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the current period presentation. These reclassifications did not change previously reported net loss, total assets or stockholders' equity.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value under generally accepted

2. Summary of Significant Accounting Policies (Continued)

accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective commencing with the Company's fiscal year 2008 annual financial statements and fiscal 2009 for certain non-financial assets and liabilities. The Company is currently assessing the potential impact that the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS No. 159"), which is effective January 1, 2008. SFAS No. 159 permits the Company to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is expected to expand the use of fair value measurement, with is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 159 will have on its financial statements on the adoption date of January 1, 2008.

In June 2007, the EITF issued Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* ("EITF No. 07-3"), which is effective for fiscal years beginning after December 15, 2007. EITF No. 07-3 requires the Company to defer and capitalize nonrefundable advance payments for research and development activities. Such amounts will be recognized as expenses as the goods are delivered or the services are performed. If the Company does not expect the goods to be delivered or the services to be performed, the capitalized amounts should be expensed. The Company believes that the adoption of EITF No. 07-3 will not have a significant impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS No. 141(R)"). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS No. 141(R) will have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income (loss) attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes reporting requirements that identify and distinguish between the interest of the parent and the interest of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS No. 160 will have on its financial statements.

3. Balance Sheet Components

Property and Equipment, Net

Property and equipment consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Leasehold improvements	$ 1,269	$ 486
Equipment	7,122	5,757
Software	671	489
	9,062	6,732
Less: Accumulated depreciation and amortization	(4,592)	(4,718)
	$ 4,470	$ 2,014

Depreciation and amortization expense for the years ended December 31, 2007, 2006 and 2005 was $1.1 million, $704,000 and $729,000, respectively.

The Company leases certain assets under capital leases having terms up to 3 years. Assets held by the Company at December 31, 2007 and 2006 under such lease arrangements are included in property and equipment on the balance sheets as follows (in thousands):

	December 31, 2007	December 31, 2006
Equipment	$ 966	$ 966
Less: Accumulated depreciation and amortization	(832)	(549)
	$ 134	$ 417

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Clinical trial expenses	$2,473	$3,855
Payroll and related expenses	3,004	1,923
Legal expenses	355	299
Deferred rent	—	177
Other	158	167
	$5,990	$6,421

4. Investments

The following is a summary of the Company's available-for-sale marketable securities (in thousands):

	As of December 31, 2007		
	Cost	Unrealized Gain (Loss)	Fair Value
Short-term investments:			
Corporate securities	$31,241	$(19)	$31,222
Foreign securities	1,497	(3)	1,494
Certificates of deposit	9,703	3	9,706
Auction rate securities	17,700	—	17,700
Total short-term investments	$60,141	$(19)	$60,122
Long-term investments:			
Auction rate securities	$15,655	$ —	$15,655

	As of December 31, 2006		
	Cost	Unrealized Gain (Loss)	Fair Value
Short-term investments:			
Corporate securities	$12,342	$ (7)	$12,335
Foreign securities	3,196	(1)	3,195
Certificates of deposit	5,507	2	5,509
Government securities	13,000	(28)	12,972
Auction rate securities	42,740	—	42,740
Total short-term investments	$76,785	$(34)	$76,751
Long-term investments:			
Government securities	$ 6,143	$(10)	$ 6,133

At December 31, 2007, the investments bear interest at rates between 4.4% and 6.9% per annum. The investments, other than ARS, mature between January 2008 and December 2008. ARS are structured to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, usually every 28 days. The underlying securities have stated or contractual maturities between July 2022 and June 2046.

5. Commitments and Contingencies

The Company leases certain equipment under capital lease arrangements expiring at various dates through November 2008 at interest rates of 2.2% to 7.2%. The capital leases are collateralized by certain assets of the Company.

The Company rents its office facilities and certain equipment under noncancelable operating leases, which expire at various dates through September 2014. Under the terms of the leases, the Company is responsible for certain taxes, insurance and maintenance expenses.

5. Commitments and Contingencies (Continued)

In September 2006, the Company entered into an operating lease for additional office space in Palo Alto, California. The lease commenced in November 2006 and terminates in December 2010. The total square footage covered by the new lease is 30,630 square feet, of which the Company leased 15,315 square feet started in November 2006 and the remaining 15,315 square feet started in September 2007.

In December 2006, the Company entered into an extension of the operating lease for office space in Palo Alto, California. The lease extension commences in October 2007 and terminates in September 2014. The total square footage covered by the lease extension is 84,460 square feet, of which the Company leases 53,830 square feet started in October 2007 and the remaining 30,630 square feet starting in January 2011.

Rent expense for the years ended December 31, 2007, 2006 and 2005 was $2.4 million, $3.1 million and $3.0 million, respectively. The Company recognizes rent expense on a straight-line basis over the lease period.

Future minimum payments under noncancelable lease obligations as of December 31, 2007 are as follows (in thousands):

	Capital Leases	Operating Leases
2008	$ 134	$ 2,516
2009	9	2,583
2010	—	2,646
2011	—	2,826
2012	—	2,910
Thereafter	—	5,301
Total minimum lease payments	143	$18,782
Less: Interest	(2)	
Present value of minimum lease payments	141	
Less: Amount due within one year	(133)	
Amount due after one year	$ 8	

Legal Proceedings

The Company has initiated binding arbitration and related litigation with Johnson & Johnson, Ortho-McNeil Pharmaceutical, Inc., Ortho Pharmaceutical Corporation, The R.W. Johnson Pharmaceutical Research Institute and Johnson & Johnson Pharmaceutical Research and Development, L.L.C., or, collectively, J&J, over ownership of intellectual property related to erythropoietin receptor, or EPO-R, agonists (compounds capable of binding to and activating the EPO-R). This intellectual property is the subject of a number of U.S. and international patents and patent applications assigned to the Company and J&J, including a U.S. patent currently assigned to J&J, several U.S. patents currently assigned to the Company and a European patent application currently assigned to J&J. In this section, the Company refers to the patents and patent applications subject to the arbitration collectively as the "intellectual property in dispute". The Company believes that it is the sole owner or co-owner of

5. Commitments and Contingencies (Continued)

the intellectual property in dispute, including a European patent application currently naming J&J as sole owner that may issue in the near future and relates to specified ESA peptide compounds. J&J, on the other hand, alleges that they are the sole owner or co-owner of the intellectual property in dispute, including several U.S. patents on which the Company is currently named as sole owner that relate to specified peptide compounds.

In June 2004, the Company filed a civil complaint in the Munich Regional Court in the Federal Republic of Germany against J&J alleging that it is an owner or co-owner of J&J's European patent application relating to agonist peptide dimers. In October 2005, J&J filed its response to the Company's complaint, denying its claims of inventorship and ownership. In April 2006, the Company requested the court to dismiss the complaint so that the issues it raised could be resolved pursuant to the arbitration proceeding described below. The court has done so.

In September 2004, the Company filed a civil complaint in the U.S. District Court for the Northern District of Illinois, or the Illinois case, against J&J alleging claims for correction of inventorship and ownership of the above-referenced patents and patent applications assigned to J&J, for corresponding declaratory and injunctive relief, for breach of contract, and for unjust enrichment and constructive trust. The complaint alleges that the Affymax N.V. scientists are sole or co-inventors of the intellectual property in dispute, including the above-referenced J&J patents and patent applications, and that the Company is the sole or co-owner of them. The complaint also alleges that J&J breached the three-year Research and Development Agreement between Affymax N.V. and a division of Ortho Pharmaceutical Corporation, a subsidiary of J&J, or the R&D Agreement, by, among other things, engaging in a course of conduct designed to obtain patents for itself and to deny the Company patents on the Affymax scientists' inventions. The complaint further alleges that the Company has suffered damages as a result of J&J's breaches and that J&J has been unjustly enriched through its misconduct and should be subject to the imposition of a constructive trust.

J&J denied all material claims in the Company's complaint and, among other things, counterclaimed that its employees are the true inventors of the intellectual property in dispute and that it is therefore entitled to sole or co-ownership of the above-referenced patents and patent applications assigned solely or jointly to the Company. J&J also brought related claims for breach of contract, breach of fiduciary duty, unjust enrichment and constructive trust. J&J alleges, among other things, that Affymax N.V., Affymax Technologies, N.V. and Affymax Research Institute, or the Affymax Entities, filed in their own name certain patent applications allegedly claiming inventions of J&J employees without notifying or consulting with J&J, that during patent prosecution the Affymax Entities improperly removed the names of J&J employees from certain patent applications on which those employees had been identified as inventors, and that these and other alleged breaches entitle J&J to damages and waive all rights the Company may have had to the intellectual property in dispute.

J&J requested that the Illinois case be dismissed and the matter decided under the R&D Agreement's arbitration provisions. In February 2006, the Illinois court entered an order that the appropriate forum for the Company and J&J to resolve the inventorship, ownership, breach of contract and related claims was binding arbitration under the American Arbitration Association, or AAA, rules in Illinois. The Illinois court held that the claims pending in the German court were also subject to arbitration and required the Company to dismiss the German complaint, which the Company has done. The Illinois court further stated that it will retain jurisdiction over the subject matter during the arbitration in Illinois.

5. Commitments and Contingencies (Continued)

In April 2006, the Company filed a demand for arbitration with the AAA claiming that it is the owner or co-owner of the intellectual property in dispute and alleging claims for correction of inventorship and ownership of the above-referenced patents and patent applications assigned to J&J, for corresponding declaratory and injunctive relief, for breach of contract, for unjust enrichment and constructive trust, and for breach of fiduciary duty. In May 2006, J&J filed its answer and counterclaims, substantially restating their allegations made in the U.S. and German courts. The AAA has appointed a panel of arbitrators, and the arbitrators have established a schedule for the arbitration. The parties have commenced discovery.

In June 2007, J&J filed a motion to compel discovery of information relating to Hematide and then filed a substitute motion to compel. In July 2007, the Company filed an opposition to J&J's motion to compel and a motion for protective order. In September 2007, the arbitrators ruled that J&J can obtain limited discovery on Hematide, but that J&J cannot obtain discovery on Hematide product formulas, sequences, laboratory notebooks containing such information, experimental results, clinical trial results and strategies, or internal business planning. The arbitration hearing is scheduled to occur during the second half of 2008. The outcome of the matter is uncertain and regardless of outcome, the matter may have an adverse impact on the Company because of legal costs, diversion of management resources and other factors.

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. The Company believes there is no other litigation pending that could have, individually or in the aggregate, a material adverse effect on the financial position, results of operations or cash flows.

6. Preferred Stock

The Company's Certificate of Incorporation, as amended in February 2006, designates and authorizes 34,609,592 shares of Series A, Series B, Series C and Series D Mandatorily Redeemable Convertible Preferred Stock and 530,082 shares of Series E Redeemable Convertible Preferred Stock of which no shares are issued and outstanding as of December 31, 2007 and 2006. Series A, Series B, Series C and Series D Mandatorily Redeemable Convertible Preferred Stock and Series E Redeemable Convertible Preferred Stock hereinafter are collectively referred to as preferred stock.

In April 2006, the holders of Series A Mandatorily Redeemable Convertible Preferred Stock voluntarily elected to convert their shares of preferred stock into 848,293 shares of the Company's common stock.

In April 2006, 6,626 shares of Series C Mandatorily Redeemable Convertible Preferred Stock held by an individual automatically converted into 6,626 shares of the Company's common stock pursuant to the Company's Certificate of Incorporation which provided that such shares would automatically convert into an equal number of shares of the Company's common stock if holders do not participate in subsequent equity financings within nine months of such financing.

In connection with the closing of the Company's initial public offering in December 2006, all of the Company's shares of preferred stock outstanding at the time of the offering were automatically converted into 8,993,572 shares of the Company's common stock.

The Company's Certificate of Incorporation, as amended and restated in December 2006, designates and authorizes 10,000,000 shares of $0.001 par value preferred stock, of which no shares are issued and outstanding as of December 31, 2007 and 2006. The rights, preferences and privileges of any

6. Preferred Stock (Continued)

preferred stock to be issued pursuant to the Company's current Certificate of Incorporation, as amended and restated, have yet to be established.

No dividends on preferred stock have been declared since inception through December 31, 2007.

7. Common Stock

The Company's Certificate of Incorporation, as amended and restated in December 2006 in connection with the closing of the Company's initial public offering, authorizes the Company to issue 100,000,000 shares of $0.001 par value common stock.

8. Stock-Based Compensation

Equity Incentive Plans

2001 Stock Option/Stock Issuance Plan

In September 2001, the Company adopted the 2001 Stock Option/Stock Issuance Plan (the "2001 Plan"). The 2001 Plan provides for both the granting of stock options and issuing shares of stock to employees and consultants of the Company. Stock options granted under the 2001 Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees. Nonqualified stock options ("NSO") may be granted to Company employees, directors and consultants. Stock issued under the 2001 Plan may be issued to employees, directors and consultants. Stock options under the 2001 Plan may be granted for periods of up to ten years and at prices no less than the fair market value for ISOs and 85% of the fair market value for NSOs, as determined by the Board of Directors. The exercise price of an ISO or NSO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. To date, stock options granted generally become exercisable over four years. The Company issues new shares of common stock upon exercise of stock options.

The 2001 Plan allows for the early exercise of options prior to vesting. A portion of the shares sold are subject to a right of repurchase at the original issuance price by the Company, which lapses over the vesting period of the original stock option. At December 31, 2007 and 2006, a total of 8,233 and 31,427, respectively, shares were subject to repurchase by the Company.

Subsequent to the initial public offering of the Company's common stock in December 2006, no further options were granted under the 2001 Plan. At the date of the initial public offering, the 7,948 shares remaining and available for future grant were cancelled.

2006 Equity Incentive Plan

Upon the effectiveness of the Company's initial public offering in December 2006, the Company adopted the 2006 Equity Incentive Plan (the "2006 Plan"). Shares of common stock issuable pursuant to all then outstanding stock awards granted under the 2001 Plan remained subject to the terms of the 2001 Plan and no additional stock awards were granted pursuant to the terms of the 2001 Plan upon the effective date of the 2006 Plan.

The 2006 Plan provides for both the granting of stock awards, including stock options and restricted stock units, to employees, directors and consultants of the Company. Stock options granted under the 2006 Plan may be either ISOs or NSOs. ISOs may be granted only to Company employees.

8. Stock-Based Compensation (Continued)

NSOs may be granted to Company employees, directors and consultants. Stock issued under the 2006 Plan may be issued to employees, directors and consultants. Stock options under the 2006 Plan may be granted for periods of up to ten years and at prices no less than the fair market value of the Company's common stock on the date of grant. The exercise price of an ISO granted to a 10% stockholder shall not be less than 110% of the fair market value of the Company's common stock on the date of grant. To date, stock options granted generally become exercisable over four years and do not allow for the early exercise of options prior to vesting. The terms of the restricted stock units granted by the Company to date provide for vesting and delivery of shares of common stock over three years. As of December 31, 2007 and 2006, the Company has reserved 1,919,523 and 1,250,000, respectively, shares of common stock for issuance under the 2006 Plan. The Company issues new shares of common stock upon exercise of stock options. The number of shares of common stock reserved for issuance will automatically increase on January 1st of each year, from January 1, 2007 through January 1, 2016, by the lesser of (a) 4.5% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year, or (b) 1,400,000 shares. The maximum number of shares that may be issued pursuant to the exercise of incentive stock options under the 2006 Plan is equal to the total share reserve, as increased from time to time pursuant to annual increases and shares subject to options granted pursuant to the 2001 Plan that have expired without being exercised in full.

2006 Employee Stock Purchase Plan

Upon the effectiveness of the Company's initial public offering in December 2006, the Company adopted the 2006 Employee Stock Purchase Plan (the "Purchase Plan"). The Company has reserved a total of 100,000 shares of common stock for issuance under the Purchase Plan. The share reserve automatically increases on January 1 of each year, from January 1, 2007 through January 1, 2016, by an amount equal to the lesser of (i) 0.5% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year or (ii) 175,000 shares. The Company issues new shares of common stock in connection with purchases of common stock under the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount through payroll deductions during defined offering periods. The price at which the stock is purchased is equal to the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of a purchase period. For the year ended December 31, 2007 and 2006, 42,228 and 0, respectively, shares of common stock were purchased under the Purchase Plan.

Stock-Based Compensation Before Adoption of SFAS No. 123(R)

Prior to January 1, 2006 the Company accounted for stock-based employee compensation arrangements using the intrinsic value method in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, including the "FASB" Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25*. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's common stock and the exercise price of the stock option.

Had compensation cost for the Company's employee stock-based compensation arrangements been determined based upon the fair value of each stock option on the date of grant consistent with the methodology prescribed under SFAS No. 123, the Company's pro forma net loss attributable to

8. Stock-Based Compensation (Continued)

common stockholders and pro forma net loss per common share under SFAS No. 123 would have been as follows (in thousands, except per share data):

	Year Ended December 31, 2005
Net loss attributable to common stockholders, as reported	$(33,173)
Add: Employee stock-based compensation based on intrinsic value method included in reported net loss	4,001
Deduct: Employee stock-based compensation determined under fair value based method	(115)
Pro forma net loss attributable to common stockholders	$(29,287)
Net loss per common share, basic and diluted:	
As reported	$(101.65)
Pro forma	$ (89.74)

The Company estimated the fair value of the stock options using the minimum value method in accordance with the provisions of SFAS No. 123. The fair value of the stock options was estimated at the grant date with the following assumptions:

	Year Ended December 31, 2005
Expected term (in years)	6
Dividend yield	0.00%
Risk-free interest rate	3.92% - 4.34%

The weighted-average grant date fair value per share of employee stock options granted during the year ended December 31, 2005 was $7.33.

Pro forma disclosures for the years ended December 31, 2007 and 2006 are not presented because stock-based employee compensation was accounted for under SFAS No. 123(R)'s fair-value method during this period.

Stock-Based Compensation After Adoption of SFAS No. 123(R)

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, using the prospective transition method, which requires the measurement and recognition of compensation expense for all share-based payment awards granted, modified and settled to the Company's employees and directors after January 1, 2006. The Company's financial statements as of and for the years ended December 31, 2006 and 2007 reflect the impact of SFAS No. 123(R). In accordance with the prospective transition method, the Company's financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

During the year ended December 31, 2006, the Company granted 842,065 stock options to employees and directors with a weighted-average grant date fair value of $15.48. During the year ended December 31, 2007, the Company granted 1,034,075 and 30,650, respectively, stock options and

8. Stock-Based Compensation (Continued)

restricted stock units to employees and directors with a weighted-average grant date fair value of $20.06 and $21.74 per share, respectively. As of December 31, 2007, there was unrecognized compensation cost of $21.8 million related to these stock options and restricted stock units. The unrecognized compensation cost as of December 31, 2007 is expected to be recognized over a weighted-average amortization period of 2.74 years.

The Company estimated the fair value of employee and director stock options using the Black-Scholes valuation model. The fair value of employee and director stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of employee and director stock options were estimated using the following weighted-average assumptions for the years ended December 31, 2007 and 2006:

	Year Ended December 31,	
	2007	2006
Expected volatility	81%	87%
Risk-free interest rate	4.24%	4.61%
Dividend yield	0.00%	0.00%
Expected term (in years)	5.77	5.77

The expected term of stock options represents the average period the stock options are expected to remain outstanding and is based on the expected terms for industry peers as the Company did not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior. The expected stock price volatility for the Company's stock options for the years ended December 31, 2007 and 2006 was determined by examining the historical volatilities for industry peers and using an average of the historical volatilities of the Company's industry peers as the Company did not have any significant trading history for the Company's common stock. Industry peers consist of several public companies in the biopharmaceutical industry similar in size, stage of life cycle and financial leverage. The Company will continue to analyze the historical stock price volatility and expected term assumption as more historical data for the Company's common stock becomes available. The risk-free interest rate assumption is based on the U.S. Treasury instruments whose term was consistent with the expected term of the Company's stock options. The expected dividend assumption is based on the Company's history and expectation of dividend payouts.

The Company measured the fair value of restricted stock units using the closing price of the Company's stock on the grant date. The fair value of restricted stock units is being amortized on a straight-line basis over the requisite service period of the awards.

The Company estimated the fair value of employee stock purchase rights granted under the Purchase Plan using the Black-Scholes valuation model. The weighted-average fair value of each stock purchase right for the years ended December 31, 2007 and 2006 was $11.82 and $9.43 per share, respectively. The fair value of employee stock purchase rights is being amortized on a straight-line basis over the requisite service period of the purchase rights. The fair value of employee stock purchase

8. Stock-Based Compensation (Continued)

rights were estimated using the following assumptions for the years ended December 31, 2007 and 2006:

	Year Ended December 31,	
	2007	2006
Expected volatility	61% - 70%	62% - 65%
Risk-free interest rate	3.73% - 4.83%	4.67% - 4.92%
Dividend yield	0.00%	0.00%
Expected term (in months)	6 - 24	4.5 - 22.5

The Company recognized stock-based compensation expense related to employee stock options, restricted stock units and stock purchase rights of $7.1 million and $2.2 million, respectively, for the years ended December 31, 2007 and 2006 under SFAS No. 123(R).

The Company recognized tax benefits related to employee stock-based compensation of $2.1 million and $0, respectively, for the years ended December 31, 2007 and 2006.

In addition, SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. Prior to the adoption of SFAS No. 123(R), the Company accounted for forfeitures as they occurred.

Stock Option and Restricted Stock Unit Activity

The following table summarizes information about stock option activity for the year ended December 31, 2007:

Stock Options Outstanding	Shares Available For Grant	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balances at December 31, 2006	1,212,500	1,332,575	$ 6.67		
Additional shares authorized	669,523	—	—		
Options granted	(1,046,575)	1,046,575	28.20		
Restricted stock units granted	(30,650)	—	—		
Options exercised	—	(213,454)	2.20		
Options forfeited	65,216	(65,216)	21.81		
Options cancelled	1,364	(1,364)	27.12		
Shares repurchased	5,027	—	—		
Balances at December 31, 2007	876,405	2,099,116	$17.37	8.54	$16,547,000
Options exercisable and unvested expected to vest at December 31, 2007		524,117	$13.41	8.33	$ 5,667,000
Options exercisable at December 31, 2007		1,157,332	$ 9.19	7.74	$16,364,000

8. Stock-Based Compensation (Continued)

The stock options outstanding and exercisable by exercise price at December 31, 2007 are as follows:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$ 0.80 - 4.36	797,534	7.29	$ 2.95	797,534	$ 2.95
18.84 - 21.74	545,718	9.35	20.41	250,168	18.84
23.74 - 25.91	293,848	9.61	25.19	15,638	25.19
30.27 - 36.43	462,016	9.07	33.73	93,992	33.87
	2,099,116			1,157,332	

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock for stock options that were in-the-money at December 31, 2007. The total intrinsic value of stock options exercised was $5.3 million and $4.1 million during the year ended December 31, 2007 and 2006, respectively, and was determined at the date of each stock option exercise.

The following table summarizes information about restricted stock unit activity for the year ended December 31, 2007:

Restricted Stock Units Outstanding	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Nonvested shares at December 31, 2006	—	$ —		
Restricted stock units granted	30,650	21.74		
Nonvested shares at December 31, 2007	30,650	$21.74	3.04	$19,000

The aggregate intrinsic value is calculated as the difference between the grant date fair value of the restricted stock units and the fair value of the Company's common stock for restricted stock units that were in-the-money at December 31, 2007.

Deferred Stock-Based Compensation

In September 2003, the Company approved the repricing of existing employee stock options from $4.00 to $0.80 per share, which was deemed to be the fair market value. As a result of the repricing, stock options are subject to variable accounting. At December 31, 2007, the fair value of the common stock was $22.36 per share and approximately 36,000 repriced stock options remained outstanding. During the years ended December 31, 2007, 2006 and 2005, the Company has recorded deferred stock-based compensation/(benefit) related to these stock options of $(445,000), $1.3 million and $4.2 million, respectively, and recorded stock-based compensation expense/(benefit) of $(445,000), $1.9 million and

8. Stock-Based Compensation (Continued)

$4.0 million, respectively. During the year ended December 31, 2006, the Company reversed deferred stock-based compensation related to year ended December 31, 2005 of $2.1 million and reversed amortization of deferred stock-based compensation of $2.4 million (see Note 13).

During the year ended December 31, 2005 the Company issued stock options to certain employees under the Plan with exercise prices below the fair value of the Company' common stock at the date of grant. The Company estimated the fair value of its common stock based upon several factors, including progress and milestones attained in its business. In accordance with the requirements of APB No. 25, the Company has recorded deferred stock-based compensation for the difference between the exercise price of the stock option and the fair value of the Company's stock at the date of grant. This deferred stock-based compensation is amortized to expense on a straight-line basis over the period during which the options vest, generally four years. During the year ended December 31, 2005, the Company has recorded deferred stock-based compensation related to these stock options of $195,000, net of cancellations, and recorded amortization of such deferred stock-based compensation of $32,000, $43,000 and $28,000, respectively, during the years ended December 31, 2007, 2006, 2005.

Warrants

In connection with an equipment lease agreement, the Company issued a warrant in January 2005 to purchase 1,987 shares of Series C Mandatorily Redeemable Convertible Preferred Stock at a price of $15.09 per share to the lessor. The warrant expires in January 2012. In December 2006, the warrant to purchase Series C Mandatorily Redeemable Convertible Preferred Stock was automatically converted into a warrant to purchase 1,987 shares of common stock in connection with the completion of the Company's initial public offering. The fair value of the warrant of $56,000 was recorded as interest expense. The warrant remains outstanding at December 31, 2007.

In connection with the sale of Series D Mandatorily Redeemable Convertible Preferred Stock, the Company issued warrants in July 2005 to purchase 383,097 shares of common stock at a price of $17.00 per share to certain investors. The warrants expire upon the earlier of July 2010, on the effective date of the Company's initial public offering, a sale of all or substantially all of the assets or a change of control. The Company also issued a warrant in July 2005 to purchase 55,079 shares of common stock at a price of $4.56 per share to an investment bank in connection with the sale of Series D Mandatorily Redeemable Convertible Preferred Stock. The warrant expires upon the earlier of 2012, on the effective date of the Company's initial public offering, a sale of all or substantially all of the assets or a change of control.

The Company issued 240,561 shares of its common stock in December 2006 upon the net and cash exercise of outstanding warrants that would have terminated if not exercised prior to the closing of the Company's initial public offering. As of December 31, 2007, a warrant to purchase 1,987 shares of common stock remains outstanding.

Nonemployee Stock-Based Compensation

Stock-based compensation expense related to stock options granted and common stock issued to nonemployees is recognized as the stock options are earned. The Company believes that the estimated fair value of the stock options is more readily measurable than the fair value of the services received. The fair value of stock options granted to nonemployees is calculated at each grant date and remeasured at each reporting date. The stock-based compensation expense related to a grant will

8. Stock-Based Compensation (Continued)

fluctuate as the fair value of the Company's common stock fluctuates over the period from the grant date to the vesting date. The Company has recorded nonemployee stock-based compensation expense of $159,000, $346,000, and $300,000 for the years ended December 31, 2007, 2006 and 2005.

9. Related Party Transactions

The Company had two notes receivable from employees in the amount of $100,000 each. Each note was collateralized by the deed to the respective home. Interest accrued at the rate of 5.5% and 8.0% per annum for the two notes. Accrued interest was forgiven on each note's anniversary date, if the employee remained in good standing with the Company. The two notes were due in June 2007 unless forgiven on the date, if ever, the Company became subject to the reporting requirements of the Securities Exchange Commission in connection with the Company's initial public offering of its common stock. Accordingly, the two notes were forgiven upon the effectiveness of the initial public offering of the Company's common stock in December 2006.

10. Development and Commercialization Agreements with Takeda

The Company has entered into two separate collaboration agreements with Takeda, which have been combined for accounting purposes due to their proximity of negotiation. Consideration from these collaboration agreements includes nonrefundable upfront license fees, reimbursement for sales of active pharmaceutical ingredients, clinical and regulatory milestone payments, reimbursement of third party U.S. clinical development expenses, product profit share revenues (as co-promotion revenues) and royalties.

In February 2006, the Company issued an exclusive license to Takeda for development and commercialization of Hematide in Japan. Pursuant to this agreement, Takeda paid the Company approximately $27 million, consisting of $17 million in upfront licensing fees and approximately $10 million for the purchase of 530,082 shares of the Company's Series E Redeemable Convertible Preferred Stock at a price of $18.86 per share. In addition, the Company is eligible to receive clinical and regulatory milestone payments of up to an aggregate of $75 million upon Takeda's successful achievement of clinical development and regulatory milestones in Japan. Takeda is responsible for all development and commercialization costs in Japan and will purchase the API for Hematide from the Company. Assuming Hematide is approved and launched in Japan, the Company will receive a royalty from Takeda on Hematide sales in Japan.

In June 2006, the parties expanded their collaboration to develop and commercialize Hematide worldwide, which includes the co-development and co-commercialization of Hematide in the U.S. Takeda received an exclusive license to develop and commercialize Hematide outside of the U.S. Beginning January 1, 2007, Takeda was responsible for the first $50 million of third party expenses related to development in pursuit of U.S. regulatory approval of Hematide. Of the first $50 million of third-party expenses related to the development in pursuit of U.S. regulatory approval of Hematide to be borne by Takeda, a total of $36.3 million was utilized by both parties through December 31, 2007. The Company expects that the remaining $13.7 million will be utilized during the first quarter of 2008. Thereafter, Takeda will bear 70% of the third party U.S. development expenses, while the Company will be responsible for 30% of the expenses. The Company retains responsibility for 100% of its internal development expenses. Under the June 2006 agreement, Takeda paid the Company an upfront license fee of $105 million, and the Company is eligible to receive from Takeda up to an aggregate of

10. Development and Commercialization Agreements with Takeda (Continued)

$280 million upon the successful achievement of clinical development and regulatory milestones. Further, the Company may receive from Takeda up to an aggregate of $150 million upon the achievement of certain worldwide annual net sales milestones. The Company and Takeda will share equally in the net profits and losses of Hematide in the United States, which include expenses related to the marketing and launch of Hematide. Takeda will pay the Company a variable royalty based on annual net sales of Hematide outside the United States. The agreement establishes a joint steering committee to oversee the development, regulatory approval and commercialization of Hematide.

The Company will share responsibility with Takeda for clinical development activities required for U.S. regulatory approval of Hematide. Specifically, the Company has primary responsibility for Hematide's clinical development plan and clinical trials in the dialysis and pre-dialysis indications, while Takeda has primary responsibility in the chemotherapy induced anemia and anemia of cancer indications. The Company is responsible for United States regulatory filings in the dialysis, pre-dialysis, chemotherapy induced anemia and anemia of cancer indications, including holding the NDAs for those indications. Takeda is responsible for regulatory filings outside the United States and the creation of a global safety database.

The Company is also responsible for the manufacture and supply of all quantities of API to be used in the development and commercialization of Hematide worldwide. Takeda is responsible for the fill and finish steps in the manufacture of Hematide worldwide.

The parties have agreed to jointly develop the initial commercial marketing plan for Hematide in the United States pursuant to which the Company and Takeda will divide Hematide promotional responsibilities in the U.S. The Company and Takeda will jointly decide on promotional responsibility for markets outside of these initial indications.

Under the February 2006 agreement, Takeda also obtained a right of first negotiation to any backup products for Hematide developed by the Company or its third-party partners. Specifically, during the first ten years of the agreement, if the Company or third-party partners develop a product that advances to Phase 2 clinical trials and competes with Hematide in the renal or oncology indications, the Company is obligated to offer to Takeda the right to develop and commercialize such product in Japan before offering the product opportunity in Japan to any other third party.

The Company has recognized $44.3 million and $11.7 million, respectively, of revenue under the Arrangement with Takeda using the zero profit proportional performance model during the years ended December 31, 2007 and 2006. In December 2006, Takeda completed a Phase 1 trial of Hematide in Japan resulting in the payment in January 2007 to the Company of a $10 million milestone under the collaboration, which was recorded as a receivable from Takeda and deferred revenue at December 31, 2006. As of December 31, 2007 and 2006, the amount receivable from Takeda was $15.3 million and $10.2 million, respectively, which was recorded as a receivable from Takeda. Effective January 1, 2008, the Company entered into an amendment to the Arrangement with Takeda that will result in a change to its revenue recognition policy beginning in the three months ending March 31, 2008, as described further in Note 2.

In July 2006, the Company paid Nektar Therapeutics AL Corporation a $17.6 million milestone payment in connection with a license agreement related to Hematide. The payment was triggered by the collaboration agreements signed with Takeda in February and June 2006. The $17.6 million payment was recorded as research and development expenses during the year ended December 31,

10. Development and Commercialization Agreements with Takeda (Continued)

2006 as technological feasibility for Hematide had not been established and there was no alternative future use.

11. Income Taxes

The components of the provision for income taxes are as follows:

	Year Ended December 31,		
	2007	2006	2005
	(in thousands)		
Provision for income taxes:			
Current provision for income taxes:			
Federal	$ 13,100	$—	$—
State	2,339	—	—
Total current provision for income taxes	15,439	—	—
Deferred tax benefit:			
Federal	(10,082)	—	—
State	—	—	—
Total deferred tax benefit	(10,082)	—	—
Provision for income taxes	$ 5,357	$—	$—

The Company was in a net operating loss position in 2006 and all prior periods and therefore did not record a provision for income taxes for years ended December 31, 2006 and 2005.

A reconciliation of the federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2007	2006	2005
	(in percent)		
Federal statutory income tax rate	(35.00)%	(34.00)%	(34.00)%
State income taxes, net of federal benefit	4.43	(5.83)	(6.89)
Stock-based compensation expense	1.72	0.61	4.49
Change in valuation allowance	48.50	43.02	39.00
Change in federal rates and prior year true ups	(4.56)	0.31	(0.01)
Permanent differences true ups	0.11	0.06	0.03
Tax credits	(1.04)	(4.20)	(2.62)
Other	0.05	0.03	0.00
Provision for income taxes	14.21%	0.00%	0.00%

11. Income Taxes (Continued)

Deferred tax assets consist of the following:

	December 31,	
	2007	2006
	(in thousands)	
Net operating loss carryforwards	$ 8,346	$ 33,014
Federal and State credit carryforwards	5,093	6,055
Depreciation and amortization	31,709	21,631
Capitalized start up costs	7,213	8,919
Accrued liabilities and allowances	51,179	1,131
Gross deferred tax assets	103,540	70,750
Deferred tax liability	(114)	—
Net deferred tax asset	103,426	70,750
Less: Valuation allowance	(93,344)	(70,750)
Net deferred tax assets	$ 10,082	$ —

At December 31, 2007, the Company had federal and state net operating loss carryforwards of $20.5 million and $20.4 million, respectively. The federal net operating loss carryforwards begin to expire in 2021 and state net operating loss carryforwards begin to expire in 2013, if not utilized.

The Company experienced an ownership change as defined by sections 382 and 383 of the Internal Revenue Code which establishes an annual limit on the deductibility of pre-ownership change net operating loss and credit carryforwards that existed on December 15, 2006.

At December 31, 2007, the Company had federal and state research credit carryforwards of $2.5 million and $2.6 million, respectively. If not utilized, the federal carryforward will expire in various amounts beginning in 2021. The California credit can be carried forward indefinitely.

Management establishes a valuation allowance for those deductible temporary differences when it is more likely than not that some or all of the benefit of such deferred tax assets will not be recognized. The ultimate realization of deferred tax assets is dependent upon the Company's ability to generate taxable income during the periods in which the temporary differences are deductible. Management considers the historical level of taxable income, projections for future taxable income, taxable income in carryback years and tax planning strategies in making this assessment. Management's assessment in the near term is subject to change if estimates of future taxable income during the carryforward period are increased.

As of December 31, 2007 the Company believed that a partial release of valuation allowance was necessary to recognize the benefit of existing deferred tax assets. Based on temporary differences scheduled to reverse during 2008 and 2009, the Company has released approximately $10.1 million of valuation allowance, and reflected net deferred tax assets equal to this amount on the balance sheet.

The valuation allowance increased $22.6 million, $20.8 million and $12.7 million during the years ended December 31, 2007, 2006 and 2005.

Effective January 1, 2007, the Company adopted the provisions of FIN No. 48, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its

11. Income Taxes (Continued)

financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The cumulative effect of adopting FIN No. 48 resulted in no adjustment to retained earnings as of January 1, 2007. The Company had $2.0 million of unrecognized tax benefits at the date of adoption which were reduced in the year ended December 31, 2007 by $712,000.

As of December 31, 2007, $1.7 million of the unrecognized tax benefits would affect the Company's income tax provision and effective tax rate if recognized. However, as the Company would currently need to increase its valuation allowance for any additional amounts benefited, the effective tax rate would not be impacted until the valuation allowance was removed.

The Company recorded a $9.4 million FIN No. 48 liability for uncertain income tax positions for the year ended December 31, 2007, which was reflected as a long-term income tax liability on its balance sheet. The Company adopted a policy to include penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, if they are incurred. For the years ended December 31, 2007, 2006 and 2005 no penalties or interest expense related to income tax positions were recognized. The Company does not anticipate that any of the unrecognized tax benefits will increase or decrease significantly over the next twelve months.

A reconciliation of the unrecognized tax benefits for the year ended December 31, 2007 is as follows:

	Unrecognized Tax Benefits
	(in thousands)
Balance as of January 1, 2007	$ 2,000
Additions for current year tax positions	9,420
Reductions for prior year tax positions	(712)
Balance as of December 31, 2007	$10,708

The Company is subject to federal and California state income tax. As of December 31, 2007, the Company's federal returns for the years ended 2004 through the current period and state returns for the years ended 2003 through the current period are still open to examination. Net operating losses and research and development credit carryforwards used in 2007 will be open for examination until 2011 and 2012 for federal and state purposes, respectively. Any remaining net operating losses and research and development carryforwards that may be used in future years are still subject to inquiry given that the statute of limitation for these items would be from the year of the utilization. There are no tax years under examination by any jurisdiction at this time.

12. Quarterly Financial Data (unaudited)

The following tables summarize the unaudited quarterly financial data for the last two fiscal years.

	2007 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share data)			
Collaboration revenue	$ 7,318	$ 9,654	$ 10,487	$ 16,844
Total revenue	7,324	9,669	10,494	16,849
Loss from operations	(9,866)	(11,256)	(13,882)	(14,133)
Net loss attributable to common stockholders	(7,171)	(9,248)	(12,706)	(13,944)
Basic and diluted net loss per common share	$ (0.48)	$ (0.62)	$ (0.85)	$ (0.92)
Weighted-average number of common shares used in computing basic and diluted net loss per common share calculations	14,860	14,879	14,920	15,100

	2006 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share data)			
Collaboration revenue	$ —	$ 127	$ 4,124	$ 7,437
Total revenue	8	141	4,134	7,443
Loss from operations	(7,332)	(28,698)	(8,108)	(9,572)
Net loss attributable to common stockholders	(6,865)	(28,053)	(6,389)	(7,796)
Basic and diluted net loss per common share	$(20.34)	$ (23.49)	$ (4.76)	$ (2.49)
Weighted-average number of common shares used in computing basic and diluted net loss per common share calculations	338	1,194	1,343	3,126

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed by our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in the Rules 13(a)-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures are those controls and procedures designed to provide reasonable assurance that the information required to be disclosed in our Exchange Act filings is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms, and (2) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2007, our disclosure controls and procedures were effective.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our procedures or our internal controls will prevent or detect all error and all fraud. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of our controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Our management has concluded that, as of December 31, 2007, our internal control over financial reporting was effective based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included on page 64.

Remediation of Prior Material Weaknesses

As of December 31, 2007, management believes that the material weaknesses in our internal control over financial reporting that were included in Item 4 of our Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007 have been effectively remediated. Prior to the quarter ended December 31, 2007, the remediation measures as described below were implemented.

We have taken appropriate actions to remediate the material weakness related to our internal controls over the completeness and accuracy of our deferred income tax assets and liabilities and the income tax provision. We hired additional accounting staff, including a Vice President, Finance, to augment our accounting and financial control function and enhanced our reporting systems and procedures as well as provided greater oversight in the accounting and finance functions. The accounting staff has been trained to identify and escalate material financial reporting related matters that involve a significant degree of subjectivity, complexity and/or judgment to our senior management.

Further, we retained additional consulting resources to evaluate matters and provide assistance where appropriate.

We have taken appropriate actions to remediate the material weakness related to our internal controls over the accuracy of our collaboration revenue. We have implemented a process for the preparation and review of detailed reconciliations of the collaboration revenue, the related deferred revenue and accounts receivable balances to ensure the accuracy of the amounts reported in our financial statements. In addition, we have consolidated the collaboration revenue related duties to a single individual to provide consistent oversight.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III.

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we intend to file our definitive proxy statement for our 2008 annual meeting of stockholders, pursuant to Regulation 14A of the Securities Exchange Act, not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information to be included in the proxy statement is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item with respect to our executive officers may be found under the caption, "Executive Officers and Key Employees" appearing in our proxy statement for our 2008 annual meeting of stockholders and is incorporated herein by reference. The information required by this item relating to our directors and nominees, including information with respect to audit committee financial experts, may be found under the section entitled "Proposal 1—Election of Directors" appearing in the proxy statement for our 2008 annual meeting of stockholders and is incorporated herein by reference. Information regarding compliance with Section 16(a) of the Securities Exchange Act may be found under the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" appearing in our proxy statement for our 2008 annual meeting of stockholders and is incorporated herein by reference.

In 2006, we adopted a code of ethics that applies to our employees, officers and directors and incorporates guidelines designed to deter wrongdoing and to promote the honest and ethical conduct and compliance with applicable laws and regulations. In addition, the code of ethics incorporates our guidelines pertaining to topics such as conflicts of interest and workplace behavior. We have posted the text of our code of ethics on our website at *www.affymax.com* in connection with "Investor Relations/ Corporate Governance" materials. In addition, we intend to promptly disclose (1) the nature of any amendment to our code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (2) the nature of any waiver, including an implicit waiver, from a provision of our code of ethics that is granted to one of these specified officers, the name of such person who is granted the waiver and the date of the waiver on our website in the future.

Item 11. Executive Compensation.

The information required by this item is included in our proxy statement for our 2008 annual meeting of stockholders under the section entitled "Executive Compensation" and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item with respect to securities authorized for issuance under our equity compensation plans is included in our proxy statement for our 2008 annual meeting of stockholders under the section entitled "Securities Authorized for Issuance under Equity Compensation Plans" and is incorporated herein by reference. The information required by this item relating to security ownership of certain beneficial owners and management is included in our proxy statement for our 2008 annual meeting of stockholders under the section entitled "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this item is incorporated herein by reference to the information included in our proxy statement for our 2008 annual meeting of stockholders under the sections

entitled "Information Regarding The Board of Directors and Corporate Governance" and "Transactions With Related Persons."

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated herein by reference to the information included in our proxy statement for our 2008 annual meeting of stockholders under the section entitled "Proposal 2—Ratification of Selection of Independent Registered Public Accounting Firm."

PART IV.

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements (included in Part II of this report):

- Report of Independent Registered Public Accounting Firm
- Balance Sheets
- Statements of Operations
- Statements of Stockholders' Equity
- Statements of Cash Flows
- Notes to Financial Statements

(2) Financial Statement Schedules

All other financial statement schedules are omitted because the information is inapplicable or presented in the notes to the financial statements.

The following exhibits are included herein or incorporated herein by reference:

3.3	Amended and Restated Certificate of Incorporation(1)
3.5	Amended and Restated Bylaws(2)
4.1	Reference is made to exhibits 3.3 and 3.5
4.2	Specimen Common Stock Certificate(1)
4.3	Warrant to purchase shares of Series C Preferred Stock(1)
4.4	Amended and Restated Investor Rights Agreement, dated September 7, 2006, by and between the Registrant and certain of its stockholders(1)
10.1+	Form of Indemnity Agreement for Directors and Executive Officers(1)
10.2+	2001 Stock Option/Stock Issuance Plan(1)
10.3+	Form of Notice of Grant of Stock Option, Form of Stock Option Agreement and Form of Stock Purchase Agreement under 2001 Stock Option/Stock Issuance Plan(1)
10.4+	Form of Stock Issuance Agreement under 2001 Stock Option/Stock Issuance Agreement(1)
10.5+	2006 Equity Incentive Plan(1)
10.6+	Form of Option Grant Notice and Form of Option Agreement under 2006 Equity Incentive Plan(1)
10.7+	2006 Employee Stock Purchase Plan(1)
10.8+	Form of Offering Document under 2006 Employee Stock Purchase Plan(1)
10.9+	Form of Restricted Stock Unit Notice and Form of Restricted Stock Unit under 2006 Equity Incentive Plan
10.10+	Employment Agreement, dated June 10, 2003, by and between the Registrant and Arlene M. Morris(1)

10.11+	Executive Employment Agreement, dated November 17, 2005, by and between the Registrant and Paul B. Cleveland(1)
10.12+	Executive Employment Agreement, dated July 21, 2007, by and between the Registrant and Steven Love
10.13+	Summary of Non-Employee Director Compensation Program(1)
10.14	Research and Development/Office Lease, dated May 30, 1990, by and between Miranda Associates and Affymax Research Institute(1)
10.15	First Amendment to Lease, dated November 16, 1999, by and between Spieker Properties, L.P., successor in interest to Miranda Associates, and Affymax Research Institute(1)
10.16	Second Amendment to Lease, dated December 20, 1999, by and between Spieker Properties, L.P. and Affymax Research Institute(1)
10.17	Third Amendment, dated December 31, 2001, by and between EOP-Foothill Research Center, L.L.C., successor by merger to Spieker Properties L.P., and the Registrant(1)
10.18*	EPO Receptor License Agreement, dated September 5, 1996, by and between the Registrant and Genetics Institute, Inc.(1)
10.19	License Agreement (Therapeutic Products), dated June 28, 1996, by and between the Registrant, Dyax Corp. and Protein Engineering Corporation(1)
10.20	License Agreement, dated July 25, 2001, by and between the Registrant and Dyax Corp.(1)
10.21*	License Agreement, dated July 27, 2001, by and between the Registrant, Glaxo Group Limited, SmithKline Beecham Corporation, Affymax N.V., Affymax Research Institute and Affymax Technologies N.V.(1)
10.22*	License Agreement, dated August 13, 2001, by and between the Registrant and XOMA Ireland Limited(1)
10.23*	License, Manufacturing, and Supply Agreement, dated April 8, 2004, by and between the Registrant and Nektar Therapeutics AL, Corporation(1)
10.24*	Collaboration and License Agreement, dated February 13, 2006, by and between the Registrant and Takeda Pharmaceutical Company Limited(1)
10.25*	Collaboration and License Agreement, dated June 27, 2006, by and between the Registrant and Takeda Pharmaceutical Company Limited(1)
10.26	Research and Development Agreement, dated April 2, 1992, by and between the Registrant and The R.W. Johnson Pharmaceutical Research Institute(1)
10.27	Sublease Agreement, dated September 1, 2006, by and between the Registrant and TIBCO Software Inc.(1)
10.28	First Amendment to Collaboration and License Agreement, dated April 1, 2007, by and between Registrant and Takeda Pharmaceutical Company Limited(3)
10.29	Fourth Amendment to Lease, dated November 30, 2006, by and between Registrant and CA-Foothill Research Center L.P.(4)
10.30	Second Amendment to Collaboration and License Agreements between Registrant and Takeda Pharmaceutical Company Limited effective January 1, 2008
23.1	Consent of Independent Registered Public Accounting Firm

24.1 Power of Attorney. Reference is made to the signature page

31.1 Certification required by Rule 13a-14(a) or Rule 15d-14(a)

31.2 Certification required by Rule 13a-14(a) or Rule 15d-14(a)

32.1 Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)

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(1) Incorporated by reference to the indicated exhibit of our registration statement on Form S-1, registration no. 333-136125, declared effective by the Securities and Exchange Commission on December 14, 2006.

(2) Incorporate by reference to the indicated exhibit in our Form 8-K as filed with the Securities and Exchange Commission on September 10, 2007.

(3) Incorporated by reference to the indicated exhibit in our Form 10-Q for the quarter ended June 30, 2007 as filed with the Securities and Exchange Commission.

(4) Incorporated by reference to the indicated exhibit in our Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission.

+ Indicates management contract or compensatory plan.

* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AFFYMAX, INC.

By: /s/ ARLENE M. MORRIS
Arlene M. Morris
President, Chief Executive Officer and Member of the Board of Directors

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Arlene M. Morris and Paul B. Cleveland, and each of them, as his or her true and lawful attorneys-in-fact and agents, each with the full power of substitution for him or her, and in his or her name and in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, and any of them or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ ARLENE M. MORRIS Arlene M. Morris	President, Chief Executive Officer and Member of the Board of Directors *(Principal Executive Officer)*	March 12, 2008
/s/ PAUL B. CLEVELAND Paul B. Cleveland	Executive Vice President, Corporate Development and Chief Financial Officer *(Principal Financial Officer)*	March 12, 2008
/s/ STEVEN LOVE Steven Love	Vice President, Finance *(Principal Accounting Officer)*	March 12, 2008
/s/ NICHOLAS G. GALAKATOS Nicholas G. Galakatos, Ph.D.	Member of the Board of Directors	March 12, 2008

Signature	Title	Date
/s/ R. LEE DOUGLAS R. Lee Douglas	Member of the Board of Directors	March 12, 2008
/s/ KATHLEEN LAPORTE Kathleen LaPorte	Member of the Board of Directors	March 12, 2008
/s/ KEITH LEONARD Keith Leonard	Member of the Board of Directors	March 12, 2008
/s/ TED W. LOVE Ted W. Love	Member of the Board of Directors	March 12, 2008
/s/ DAN SPIEGELMAN Daniel K. Spiegelman	Member of the Board of Directors	March 12, 2008
/s/ CHRISTI VAN HEEK Christi van Heek	Member of the Board of Directors	March 12, 2008
/s/ JOHN P. WALKER John P. Walker	Member of the Board of Directors	March 12, 2008

AFFYMAX, INC.

4001 Miranda Avenue
Palo Alto, CA 94304

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 22, 2008

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Affymax, Inc., a Delaware corporation (the "Company"). The meeting will be held on Thursday, May 22, 2008 at 9:00 a.m. California time at 4001 Miranda Avenue, Palo Alto, CA 94304 for the following purposes:

1. To elect three (3) Class II directors to hold office until the 2011 Annual Meeting of Stockholders.
2. To ratify the selection of PricewaterhouseCoopers LLP, as independent registered public accounting firm of the Company for its fiscal year ending December 31, 2008.
3. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is March 31, 2008. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors

Grace U. Shin
Secretary

Palo Alto, California
April 14, 2008

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the enclosed proxy as promptly as possible in order to ensure your representation at the meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

AFFYMAX, INC.

4001 Miranda Avenue
Palo Alto, CA 94304

PROXY STATEMENT
FOR THE 2008 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON:

May 22, 2008

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Why am I receiving these materials?

We have sent you this proxy statement and the enclosed proxy card because the Board of Directors of Affymax, Inc. (sometimes referred to as the "Company" or "Affymax") is soliciting your proxy to vote at the 2008 Annual Meeting of Stockholders. You are invited to attend the annual meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

The Company intends to mail this proxy statement and accompanying proxy card on or about April 14, 2008 to all stockholders of record entitled to vote at the annual meeting.

Who can vote at the annual meeting?

Only stockholders of record at the close of business on March 31, 2008 will be entitled to vote at the annual meeting. On this record date, there were 15,153,033 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on March 31, 2008 your shares were registered directly in your name with Affymax's transfer agent, Computershare Trust Company, Inc., then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card as instructed below to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on March 31, 2008 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name" and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are two matters scheduled for a vote:

- Election of three (3) Class II directors; and
- Ratification of PricewaterhouseCoopers LLP, as independent registered public accounting firm of the Company for its fiscal year ending December 31, 2008.

How do I vote?

You may either vote "For" all the nominees to the Board of Directors or you may "Withhold" your vote for any nominee you specify. For each of the other matters to be voted on, you may vote "For" or "Against" or abstain from voting. The procedures for voting are fairly simple:

Stockholder of Record: Shares Registered in Your Name

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 even 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 complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from Affymax. Simply complete and mail the proxy card to ensure that your vote is counted. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of March 31, 2008.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted "For" the election of all nominees for director, and "For" ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for its fiscal year ending December 31, 2008. If any other matter is properly presented at the meeting, your proxyholder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another properly completed proxy card with a later date.
- You may send a timely written notice that you are revoking your proxy to Affymax's Secretary at 4001 Miranda Avenue, Palo Alto, CA 94304.
- You may attend the annual meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

When are stockholder proposals due for next year's annual meeting?

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 15, 2008 to Affymax's Secretary, Grace U. Shin, at 4001 Miranda Avenue, Palo Alto, CA 94304, provided, however, that if our 2009 annual meeting is held before April 22, 2009 or after June 21, 2009, you must provide that specified information to us a reasonable time before we begin to print and send our proxy statement for our 2009 annual meeting. If you wish to submit a proposal that is not to be included in next year's proxy materials, but that may be considered at the 2009 annual meeting, or nominate a director pursuant to our Bylaws, you must provide specified information to us between January 22, 2009 and February 21, 2009; provided, however, that if our 2009 annual meeting is held before April 22, 2009 or after June 21, 2009, you must provide that specified information to us between the 120th day prior to the 2009 annual meeting and not later than the 90th day prior to the 2009 annual meeting or the 10th day following the day on which we first publicly announce of the date of the 2009 annual meeting. If you wish to do so, please review our Bylaws, which contain a description of the information required to be submitted as well as additional requirements about advance notice of stockholder proposals and director nominations.

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count "For" and "Withhold" and, with respect to proposals other than the election of directors, "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 any proposal.

What are "broker non-votes"?

Broker non-votes occur when a beneficial owner of shares held in "street name" does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed "non-routine." Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be "routine," but not with respect to "non-routine" matters.

How many votes are needed to approve each proposal?

- For the election of directors, the three nominees receiving the most "For" votes (from the holders of votes of shares present in person or represented by proxy and entitled to vote on the election of directors) will be elected. Only votes "For" or "Withhold" will affect the outcome.

- To be approved, Proposal No. 2, the ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for its fiscal year ending December 31, 2008, must receive "For" votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares are present at the meeting in person or represented by proxy. On the record date, there were 15,153,033 shares outstanding and entitled to vote. Thus, the holders of 7,576,517 shares must be present in person or represented by proxy at the meeting or by proxy to have a quorum.

Your shares will be counted toward the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in the Company's quarterly report on Form 10-Q for the second quarter of 2008.

PROPOSAL 1

ELECTION OF DIRECTORS

Affymax's Board of Directors is divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy in a class, including a vacancy created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director's successor is elected and qualified.

The Board of Directors presently has nine (9) members serving, out of nine (9) seats authorized. There are currently three (3) directors in the class whose term of office expires in 2008. If elected at the annual meeting, each of these nominees would serve until the 2011 annual meeting and until his successor is elected and has qualified, or, if sooner, until the director's death, resignation or removal. It is the Company's policy to invite directors and nominees for director to attend the Annual Meeting. Two directors attended the Company's last annual meeting of stockholders, which was held on May 31, 2007.

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The three (3) nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the three (3) nominees named below. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee proposed by the Company's management. Each person nominated for election has agreed to serve if elected. Our management has no reason to believe that any nominee will be unable to serve.

The following is a brief biography of each nominee and each director whose term will continue after the annual meeting.

NOMINEES FOR ELECTION FOR A THREE-YEAR TERM EXPIRING AT THE 2011 ANNUAL MEETING

R. Lee Douglas

Mr. Douglas, age 56, has served as a member of our Board of Directors since 2004 and as a member of our Compensation Committee since July 2006. Since 1998, Mr. Douglas has been an independent consultant to biotechnology companies. Since 2002, he also has been a visiting scholar in the Molecular & Cell Biology Department at the University of California, Berkeley. Mr. Douglas was a co-founder of COR Therapeutics, Inc., a biotechnology company, and served in a variety of capacities there from 1988 to 1998, including as its Chief Executive Officer from 1988 to 1990, Chief Financial Officer from 1990 to 1992 and Vice President of Corporate Development from 1990 to 1998. Mr. Douglas serves as a member of the board of directors of two privately held biotechnology companies. Mr. Douglas holds a B.A. from the University of North Carolina-Charlotte, a Masters in City & Regional Planning from Harvard Graduate School of Design and an M.B.A. from Harvard Business School.

Nicholas Galakatos, Ph.D.

Dr. Galakatos, age 50, has served as a member of our Board of Directors since 2001 and as the Chair of our Nominating and Corporate Governance Committee since July 2006. Dr. Galakatos has been a General Partner of MPM BioVentures II GP, LP since 2000, and Managing Director at Clarus Ventures LLC, a venture capital firm he co-founded in 2005. From 1997 to 2000, Dr. Galakatos served as Vice President of New Businesses at Millennium Pharmaceuticals, a pharmaceutical company. From 1993 to 1997, Dr. Galakatos was an associate at Venrock Associates, a venture capital firm. From 1988

to 1993, Dr. Galakatos served as Head of Molecular Biology Research and Venture Manager in Corporate Planning at Novartis, a pharmaceutical company. Dr. Galakatos currently serves as a member of the board of directors of several privately held biopharmaceutical companies. Dr. Galakatos is a member of several Advisory Councils at Harvard Medical School and MIT. Dr. Galakatos holds a Ph.D. from the Massachusetts Institute of Technology, performed post-doctoral work at Harvard Medical School, and holds a B.A. from Reed College.

John P. Walker

Mr. Walker, age 59, has served as a member of our Board of Directors since April 2006. Mr. Walker has been a member of our Nominating and Corporate Governance Committees since July 2006 and a member of our Compensation Committee since March 2007. Mr. Walker has served as the Chair of our Compensation Committee since January 2008. From July 2006 until March 2008, Mr. Walker also served as a member of our Audit Committee. In September 2007, Mr. Walker assumed responsibilities as Chief Executive Officer of Novacea, Inc., a pharmaceutical company, where he served as the interim Chief Executive Officer since December 2006 and has been Chairman since August 2006. Since 2001, Mr. Walker, acting as a consultant, has served as an Investment Advisor to MDS Capital Corp., a venture capital firm, Interim Chief Executive Officer of KAI Pharmaceuticals, a pharmaceutical company, Chairman and Interim Executive Officer at Guava Technologies, a biotechnology company, Chairman and Chief Executive Officer of Bayhill Therapeutics, a biotechnology company, and Chairman and Interim Chief Executive Officer of Centaur Pharmaceuticals, Inc., a pharmaceutical company. From 1993 to 2001, he was Chairman, Chief Executive Officer and a director of Axys Pharmaceuticals Inc. and its predecessor company, Arris Pharmaceutical Corporation, a pharmaceutical company. Mr. Walker currently serves as a member of the board of directors of Geron Corporation, as Chairman of the board of directors of Renovis, Inc. and Novacea, Inc., and as a member of the board of directors of several privately held biotechnology companies. Mr. Walker is a graduate of the Advanced Executive Program at the Kellogg School of Management at Northwestern University and holds a B.A. from the State University of New York at Buffalo.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF EACH NAMED NOMINEE.

DIRECTORS CONTINUING IN OFFICE UNTIL THE 2009 ANNUAL MEETING

Ted W. Love, M.D.

Dr. Love, age 49, has served as a member of our Board of Directors since June 2006 and as a member of our Audit Committee since July 2006. Since 2001, Dr. Love has served as the President, Chief Executive Officer and member of the board of directors of Nuvelo, Inc., a biopharmaceutical company, and as Chairman of Nuvelo's board of directors since 2005. From 1998 to 2001, Dr. Love served as Senior Vice President of Development at Theravance Inc. (formerly Advanced Medicine, Inc.), a biopharmaceutical company. From 1992 to 1998, Dr. Love served as a research physician and Vice President of Product Development at Genentech, Inc., a biotechnology company. Dr. Love also serves as a member of the board of directors of Santarus, Inc., a pharmaceutical company, and as a member of the board of directors of a privately held pharmaceutical company and the California Healthcare Institute. Dr. Love holds an M.D. from Yale Medical School and a B.A. from Haverford College.

Arlene M. Morris

Ms. Morris, age 56, has served as our President and Chief Executive Officer and as a member of our Board of Directors since 2003. From 2001 to 2003, Ms. Morris served as President and Chief Executive Officer at Clearview Projects, an advisory firm to biopharmaceutical and biotechnology

companies on strategic transactions. From 1996 to 2001, Ms. Morris served as Senior Vice President of Business Development at Coulter Pharmaceutical, Inc., a pharmaceutical company. From 1993 to 1996, Ms. Morris served as Vice President of Business Development at Scios Inc., a biopharmaceutical company. From 1977 to 1993, Ms. Morris held positions of increasing responsibility at Johnson & Johnson, including Vice President of Business Development for McNeil Pharmaceutical. Ms. Morris serves as a member of the board of directors of MediciNova, Inc., a biopharmaceutical company, and Phenomix Corporation, a biopharmaceutical company, and as a member of the board of directors of the Biotechnology Industry Organization. Ms. Morris holds a B.A. from Carlow College and has studied marketing at Western New England College.

Daniel K. Spiegelman

Mr. Spiegelman, age 49, has served as a member of our Board of Directors and our Audit Committee since September 2006. Mr. Spiegelman has served as the Chair of our Audit Committee since December 2006. Since 1998, Mr. Spiegelman has been employed at CV Therapeutics, Inc., a biopharmaceutical company, and currently serves as its Senior Vice President and Chief Financial Officer. From 1992 to 1998, Mr. Spiegelman was an employee at Genentech, Inc., a biotechnology company, most recently as Treasurer. Mr. Spiegelman also serves as a member of the board of directors of Cyclacel Pharmaceuticals, Inc., a biotechnology company. Mr. Spiegelman holds a B.A. and an M.B.A. from Stanford University.

DIRECTORS CONTINUING IN OFFICE UNTIL THE 2010 ANNUAL MEETING

Kathleen LaPorte

Ms. LaPorte, age 46, has served as a member of our Board of Directors since 2001 and a member of our Compensation Committee since 2003. Since 2005, Ms. LaPorte has served as Managing Director of New Leaf Venture Partners, a venture capital firm, of which she was a founding partner. From 1994 to 2005, Ms. LaPorte served as General Partner of Sprout Group, a venture capital firm, which she joined in 1993. From 1987 to 1993, Ms. LaPorte served as an employee at Asset Management Company, a venture capital firm, most recently as a Principal. Ms. LaPorte currently serves as a member of the board of directors of ISTA Pharmaceuticals, Inc., a pharmaceutical company, and VNUS Medical Technologies, a medical device company, and several privately held companies. Ms. LaPorte holds an M.B.A. from Stanford University Graduate School of Business, and a B.S. from Yale University.

Christi van Heek

Ms. van Heek, age 51, has served as a member of our Board of Directors since December 2007 and as a member of our Nominating and Corporate Governance Committee since March 2008. Ms. van Heek is currently Founder and Managing Director of BIO POINT Group, a business development company. From 1991 to 2003, Ms. van Heek served in various roles at Genzyme, Inc. a biotechnology company, most recently as Corporate Officer and President, Therapeutics Division. In addition, she has held various sales and marketing positions at Genentech, Inc. and Caremark/HHCA, both biotechnology companies. Ms. van Heek also currently serves on the board of directors for a privately held company. She holds a B.S.N. from the University of Iowa and received her M.B.A. from Lindenwood University in St. Louis.

Keith R. Leonard

Mr. Leonard, age 46, has served as a member of our Board of Directors since December 2007 and as a member of our Audit Committee since March 2008. Mr. Leonard is currently President and Chief Executive Officer and a director of Kythera Biopharmaceuticals, a biopharmaceutical company he

founded in 2005. Prior to Kythera, Mr. Leonard served 13 years in various roles at Amgen, Inc., a biotechnology company, most recently as Senior Vice President, Amgen Europe from 2001 to 2004. Mr. Leonard currently serves on the board of directors of ARYx Therapeutics, a pharmaceutical company. Mr. Leonard holds an M.B.A. from the University of California, Los Angeles; an M.S. in engineering from the University of California, Berkeley; a B.A. in history from the University of Maryland; and a B.S. in engineering from the University of California, Los Angeles.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected PricewaterhouseCoopers LLP, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008 and has further directed that management submit the selection of the Company's independent registered public accounting firm for ratification by the stockholders at the Annual Meeting. PricewaterhouseCoopers LLP has audited the Company's financial statements since its inception in 2001. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither the Company's Bylaws nor other governing documents or law require stockholder ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm. However, the Board is submitting the selection of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee of the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee of the Board may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of PricewaterhouseCoopers LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table represents aggregate fees billed to the Company for services relating to the fiscal years ended December 31, 2007 and 2006, by PricewaterhouseCoopers LLP, the Company's principal accountant.

	Fiscal Year Ended	
	2007	2006
	(in thousands)	
Audit Fees(a)	$726	$1,349
Audit-related Fees(b)	—	—
Tax Fees(c)	25	12
All Other Fees(d)	2	2
Total Fees	$753	$1,363

(a) Includes fees billed for professional services rendered for the audit and review of interim financial statements for the years ended December 31, 2007 and 2006, Registration Statement on Form S-1 relating to our initial public offering during the fiscal year ended December 31, 2006, and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements.

(b) Includes fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported

under "Audit Fees." During the fiscal years ended December 31, 2007 and 2006, PricewaterhouseCoopers LLP did not provide any audit-related services to us.

(c) Includes fees billed for professional services for tax compliance, tax advice and tax planning. During the fiscal year ended December 31, 2007, PricewaterhouseCoopers LLP provided services related to the research and development tax credit study for fiscal 2001 through fiscal 2007. During the fiscal year ended December 31, 2006, this service related to the preparation of federal and state income tax returns.

(d) Includes fees for products and services other than the services described above. During the fiscal years ended December 31, 2007 and 2006 such fees were related to our web-based accounting software provided by PricewaterhouseCoopers LLP.

All fees described above, other than fees for services incurred prior to the formation of the Audit Committee in July 2006, were approved by the Audit Committee.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm, PricewaterhouseCoopers LLP. The policy generally pre-approves specified services in the defined categories of audit services and audit-related services up to specified amounts. Pre-approval may also be given as part of the Audit Committee's approval of the scope of the engagement of the independent registered public accounting firm or on an individual explicit case-by-case basis before the independent registered public accounting firm is engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision must be reported to the full Audit Committee at its next scheduled meeting.

The Audit Committee has determined that the rendering of the services other than audit services by PricewaterhouseCoopers LLP is compatible with maintaining the principal accountant's independence.

THE BOARD OF DIRECTORS RECOMMENDS
A VOTE IN FAVOR OF PROPOSAL 2.

INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Independence of The Board of Directors

The NASDAQ Stock Market, or NASDAQ, listing standards require that a majority of the members of a listed company's Board of Directors qualify as "independent," as affirmatively determined by the Board of Directors. The Board consults with the Company's counsel to ensure that the Board's determinations are consistent with relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of the NASDAQ as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent registered public accounting firm, the Board has affirmatively determined that the following eight directors are independent directors within the meaning of the applicable NASDAQ listing standards: R. Lee Douglas, Nicholas Galakatos, John P. Walker, Ted W. Love, Daniel K. Spiegelman, Kathleen LaPorte, Keith Leonard and Christi van Heek. In making this determination, the Board found that none of the these directors or nominees for director had a material or other disqualifying relationship with the Company. Arlene M. Morris, the Company's President and Chief Executive Officer, is not an independent director by virtue of her employment with the Company.

Meetings of the Board of Directors

The Board of Directors met nine (9) times during the last fiscal year. Each Board member attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he or she served (for meetings that were held during the period for which he or she was a director or committee member). As required under applicable NASDAQ listing standards, in fiscal 2007, the Company's independent directors met in regularly scheduled executive sessions at which only independent directors were present.

Committees of the Board of Directors

The Board has three committees, each of which is composed of independent members: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The following table provides committee membership and meeting information for fiscal 2007 for each of the Board committees:

Name	Audit	Compensation	Nominating and Corporate Governance
Arlene M. Morris			
R. Lee Douglas		X*	
Nicholas Galakatos, Ph.D.			X*
Kathleen LaPorte		X	
John P. Walker	X	X	X
Ted W. Love, M.D.	X		
Daniel K. Spiegelman	X*		
Keith R. Leonard			
Christi van Heek			
Total meetings in fiscal 2007	11	8	5

* Committee Chairperson

Below is a description of each committee of the Board of Directors. Each of the committees has authority to engage legal counsel or other experts or consultants, as it deems appropriate, to carry out its responsibilities. The Board of Directors has determined that each member of each committee meets the applicable NASDAQ rules and regulations regarding "independence" and that each member is free of any relationship that would impair his or her individual exercise of independent judgment with regard to the Company.

Audit Committee

The Audit Committee of the Board of Directors was established by the Board in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, to oversee the Company's corporate accounting and financial reporting processes and audits of its financial statements. For this purpose, the Audit Committee performs several functions. The Audit Committee evaluates the performance of and assesses the qualifications of the independent registered public accounting firm; determines and approves the engagement of the independent registered public accounting firm; determines whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm; reviews and approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent registered public accounting firm on the Company's audit engagement team as required by law; reviews and approves or rejects transactions between the Company and any related persons; confers with management and the independent registered public accounting firm regarding the effectiveness of internal controls over financial reporting; establishes procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and meets to review the Company's annual audited financial statements and quarterly financial statements with management and the independent registered public accounting firm, including reviewing the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Audit Committee is composed of three (3) directors: Messrs. Spiegelman, Love and Leonard. Mr. Walker served on the Audit Committee during 2007 and until he resigned in March 2008. The Audit Committee met eleven (11) times during the 2007 fiscal year. The Audit Committee has adopted a written charter that is available to stockholders on the Company's website at *http://www.affymax.com*; however, information found on our website is not incorporated by reference into this proxy statement.

The Board of Directors reviews the NASDAQ standards definition of independence for Audit Committee members on an annual basis and has determined that all members of the Company's Audit Committee are independent (as independence is currently defined in Rule 4350(d)(2)(A)(i) and (ii) of the NASDAQ standards). The Board of Directors has also determined that Mr. Spiegelman qualifies as an "audit committee financial expert," as defined in applicable SEC rules. The Board made a qualitative assessment of Mr. Spiegelman's level of knowledge and experience based on a number of factors, including his formal education and experience as a chief financial officer and other financial positions for public reporting companies.

Report of the Audit Committee of the Board of Directors(1)

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2007 with management of the Company. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. The Audit Committee has also received the written disclosures and the letter from the independent registered public accounting firm required by the Independence Standards Board Standard No. 1, (*Independence Discussions with Audit Committees*), as adopted by the PCAOB in Rule 3600T and has discussed with the independent registered public accounting firm that firm's independence. Based on the foregoing, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Mr. Daniel K. Spiegelman
Dr. Ted W. Love
Mr. John P. Walker

(1) The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended or Securities Exchange Act of 1934 Act, as amended.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for identifying, reviewing and evaluating candidates to serve as directors of the Company (consistent with criteria approved by the Board), reviewing and evaluating incumbent directors, recommending to the Board for selection candidates for election to the Board of Directors, making recommendations to the Board regarding the membership of the committees of the Board, assessing the performance of the Board and developing a set of corporate governance principles for the Company. The Nominating and Corporate Governance Committee is composed of three (3) directors: Dr. Galakatos, Mr. Walker and Ms. van Heek. All members of the Nominating and Corporate Governance Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the NASDAQ listing standards). The Nominating and Corporate Governance Committee met five (5) times during the fiscal year. The Nominating and Corporate Governance Committee has adopted a written charter that is available to stockholders on the Company's website at *http://www.affymax.com*; however, information found on our website is not incorporated by reference into this proxy statement.

The Board of Directors and the Company seek to maintain a Board composed of members who can actively and productively contribute to the success of the Company. Accordingly, the Nominating and Corporate Governance Committee reviews the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board and the perceived needs of the Company in the future. This assessment includes consideration of issues of, among other things, judgment, diversity, age, skills, background and industry knowledge. However, the Board retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of the Company and the long-term interests of stockholders. In conducting this assessment, the Nominating and Corporate Governance Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current composition of the Board and the Company, with a view to increasing the overall balance of knowledge, experience and capability of the Board. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance

Committee reviews these directors' overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance, and any relationships or transactions that might impair the directors' independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee is independent for NASDAQ purposes, which determination is based upon applicable NASDAQ listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. In the past, the Nominating and Corporate Governance Committee has typically engaged the services of a professional search firm to compile a list of potential candidates, but has also considered other candidates, if it deems appropriate. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee meets to discuss and consider the candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote. In fiscal 2007, the Nominating and Corporate Governance Committee paid a fee to a search firm to assist in the process of identifying and evaluating director candidates.

At this time, the Nominating and Corporate Governance Committee does not have a policy with regard to the consideration of director candidates recommended by stockholders. The Nominating and Corporate Governance Committee believes that it is in the best position to identify, review, evaluate and select qualified candidates for Board membership, based on the comprehensive criteria for Board membership approved by the Board.

Compensation Committee

The Compensation Committee is composed of three (3) directors: Messrs. Walker and Douglas and Ms. LaPorte. Beginning in 2008, Mr. Walker became the chairperson of the Compensation Committee after Mr. Douglas held such position during 2007. All members of the Company's Compensation Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the NASDAQ listing standards). The Compensation Committee met eight (8) times during the fiscal year ended December 31, 2007. The Compensation Committee has adopted a written charter that is available to stockholders on the Company's website and *http://www.affymax.com*; however, information found on our website is not incorporated by reference into this proxy statement.

The functions of the Compensation Committee include, among other things:

- determining the compensation and other terms of employment of our executive officers and senior management and reviewing and approving in conjunction with the Board, corporate performance goals and objectives relevant to such compensation,
- evaluating and recommending to our board of directors the equity incentive plans, compensation plans and similar programs advisable for us, as well as modification or termination of existing plans and programs,
- reviewing and recommending to our board of directors the compensation of our directors,
- reviewing and approving appropriate insurance coverage for our officers and directors, and
- reviewing and approving the terms of any employment agreements, severance arrangements, change-in-control protections and any other compensatory arrangements for our executive officers.

The Compensation Committee also reviews and discusses with management the Company's Compensation Discussion and Analysis and considers whether to recommend to the Board of Directors that it be included in the proxy statement and other filings.

Compensation Committee Processes and Procedures

Typically, the Compensation Committee meets at least four (4) times annually and with greater frequency if necessary. The agenda for each meeting is usually developed by the Chair of the Compensation Committee, in consultation with members of management. The Compensation Committee meets regularly in executive session. However, from time to time, various members of management and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice or otherwise participate in Compensation Committee meetings. The Chief Executive Officer may not participate in or be present during any deliberations or determinations of the Compensation Committee regarding her compensation. The charter of the Compensation Committee grants the Compensation Committee full access to all books, records, facilities and personnel of the Company, as well as authority to obtain, at the expense of the Company, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms.

During 2007, the Compensation Committee retained the services of Radford Surveys + Consulting to advise on 401(k) plan matching programs, the use of restricted stock units under our equity plans and executive and Board of Directors compensation including assessing pay philosophy, identifying a peer group of companies, benchmark compensation levels for executive positions, identifying long-term incentive trends in the biotechnology industry, reviewing equity grant guidelines for competitiveness, and designing program recommendations to align our business strategy and market practices.

The performance and compensation process and specific determinations of the Compensation Committee with respect to executive compensation for fiscal 2007 are described in the Compensation Discussion and Analysis section of this proxy statement.

Compensation Committee Interlocks and Insider Participation

In August 2001, a group of several venture firms created the Company as an independent company—a spin out of GlaxoSmithKline. Ms. LaPorte was affiliated with one of the founding venture firms and, in the early stages of the Company's formation, acted as an officer in various capacities until February 2002.

None of the Company's executive officers currently serve, or have served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee. The Company has had a Compensation Committee since 2003. Prior to establishing the Compensation Committee, our full Board of Directors made decisions relating to compensation of our executive officers.

Compensation Committee Report(1)

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis ("CD&A") contained in this proxy statement. Based on this review and discussion, the Compensation Committee has recommended to the Board of Directors that the CD&A be included in this proxy statement and incorporated into our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Mr. John P. Walker
Ms. Kathleen LaPorte
Mr. R. Lee Douglas

(1) The material in this report is not "soliciting material," is not deemed "filed" with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934 Act, as amended.

Stockholder Communications With The Board Of Directors

The Company is recently public and has not provided a formal process related to stockholder communications with the Board. Nevertheless, every effort has been made to ensure that the views of stockholders are heard by the Board or individual directors, as applicable, and that appropriate responses are provided to stockholders in a timely manner. During the upcoming year, the Company will continue its consideration of the adoption of a formal process for stockholder communications with the Board and, if adopted, publish it promptly and post it to the Company's website.

Code Of Business Conduct and Ethics

The Company has adopted the Affymax, Inc. Code of Business Conduct and Ethics that applies to all officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at *http://www.affymax.com*. If the Company makes any substantive amendments to the Code of Business Conduct and Ethics or grants any waiver of a provision of the Code to any executive officer or director, the Company will promptly disclose the nature of the amendment or waiver on its website.

Executive Officers and Key Employees

Our executive officers and key employees and their respective ages and positions are as follows:

Name	Age	Position
Arlene M. Morris	56	President, Chief Executive Officer and Director
Paul B. Cleveland	51	Executive Vice President, Corporate Development and Chief Financial Officer
Anne-Marie Duliege, M.D., M.S.	48	Chief Medical Officer
Jeffrey H. Knapp	42	Chief Commercial Officer
Kay Slocum	61	Senior Vice President, Human Resources
Douglas L. Cole, Ph.D.	61	Vice President, Development
Christine Conroy, Pharm.D.	47	Vice President, Regulatory Affairs and Good Clinical Practice
Christopher Dammann	38	Vice President, Business Development
Tracy J. Dunn, Ph.D., J.D.	45	Vice President, Intellectual Property and Legal Affairs
Carol A. Francisco, Ph.D	56	Vice President, Biostatistics and Data Management
Steven Love	39	Vice President, Finance
Grace U. Shin, J.D.	43	Vice President, Legal Affairs and Corporate Counsel
Robert F. Venteicher, Ph.D	62	Vice President, Technical Operations
Peter R. Young, Ph.D	55	Vice President, Research

Executive Officers and Key Employees

Arlene M. Morris has served as our President and Chief Executive Officer and as a member of our board of directors since 2003. From 2001 to 2003, Ms. Morris served as President and Chief Executive Officer at Clearview Projects, an advisory firm to biopharmaceutical and biotechnology companies on strategic transactions. From 1996 to 2001, Ms. Morris served as Senior Vice President of Business Development at Coulter Pharmaceutical, Inc., a pharmaceutical company. From 1993 to 1996, Ms. Morris served as Vice President of Business Development at Scios Inc., a biopharmaceutical company. From 1977 to 1993, Ms. Morris held positions of increasing responsibility at Johnson & Johnson, including Vice President of Business Development for McNeil Pharmaceutical, a pharmaceutical company. Ms. Morris serves as a member of the board of directors of MediciNova, Inc., a biopharmaceutical company, and Phenomix Corporation, a biopharmaceutical company, and as a member of the board of directors of the Biotechnology Industry Organization (BIO). Ms. Morris holds a B.A. from Carlow College and has studied marketing at Western New England College.

Paul B. Cleveland has served as our Executive Vice President, Corporate Development and Chief Financial Officer since January 2006. From April 2004 to December 2005, Mr. Cleveland served as a Managing Director at Integrated Finance, Ltd., an investment bank. From September 1996 to April 2003, Mr. Cleveland served as a Managing Director at J.P. Morgan Chase and Co. (and a predecessor firm, Hambrecht & Quist), an investment bank. From January 1993 to September 1996, Mr. Cleveland was a partner at Cooley Godward LLP, a law firm. From December 1988 to December 1992, he was a corporate attorney at Sidley & Austin LLP, a law firm, and from September 1981 to November 1988, he was a corporate attorney at Davis Polk & Wardwell, a law firm. Mr. Cleveland serves as a member of the board of directors of Anacor Pharmaceuticals, Inc., a biopharmaceutical company. Mr. Cleveland holds a J.D. from Northwestern University School of Law and an A.B. from Washington University in St. Louis.

Anne-Marie Duliege, M.D., M.S. has served as our Chief Medical Officer since July 2007 and prior to that served as Vice President, Clinical, Medical and Regulatory Affairs since 2004. Since 1998, Dr. Duliege has also practiced medicine at the Lucille Packard Children's Hospital at Stanford University Medical Center. From 1992 to 2004, Dr. Duliege served in various positions at Chiron Corporation, a biotechnology company, most recently as Senior Medical Director. Dr. Duliege holds an M.D. and M.S. from Paris Medical School and an M.S. from Harvard School of Public Health.

Jeffrey H. Knapp has served as our Chief Commercial Officer since July 2006. From November 2005 to April 2006, Mr. Knapp served as Senior Vice President, Sales and Marketing at Abgenix, Inc.,

a biopharmaceutical company. From October 2004 to July 2005, Mr. Knapp served as Vice President, Sales and Marketing, North America at Pharmion Corporation, a pharmaceutical company. From November 2001 to October 2004, Mr. Knapp served as Vice President, U.S. sales and marketing at EMD Pharmaceuticals, a division of Merck KGaA, a pharmaceutical company. He has also held sales, marketing and business development positions at Eli Lilly and Company and Schering-Plough Corporation, both pharmaceutical companies. Mr. Knapp holds a B.A. from Wittenberg University.

Kay Slocum has served as our Senior Vice President, Human Resources since June 2006. From 2003 to 2006, Ms. Slocum served as a human resources consultant to us. From 2001 to 2003, Ms. Slocum served as Vice President, Human Resources of Deltagen, Inc., a biotechnology company. She also served as a Vice President of human resources at Corixa Corporation (formerly Coulter Pharmaceutical), a biotechnology company. Earlier in her career, Ms. Slocum served as Manager of Corporate Employee Development for Varian Associates and Management Consultant for Coulter Corporation, a biotechnology company. Ms. Slocum holds a B.A. from Southern Illinois University and an M.S. from Loyola University of Chicago.

Douglas L. Cole, Ph.D. has served as our Vice President, Development since 2004. From 1991 to 2004, Dr. Cole served as Vice President, Technical Development at Isis Pharmaceuticals, a pharmaceutical company. Since 1999, Dr. Cole has served on advisory boards to departments of chemistry and chemical engineering for the University of Illinois, Champaign-Urbana, University of California San Diego, University of California Riverside and California State University, San Marcos. Dr. Cole holds a Ph.D. from the University of Illinois and a B.S. from Fort Hays State University.

Christine Conroy, Pharm.D. has served as our Vice President, Regulatory Affairs and Good Clinical Practice Compliance since July 2007. From 2004 to 2006, Dr. Conroy served as our Senior Director, Regulatory Affairs, and from 2006 to 2007 as our Executive Director, Regulatory Affairs. From 2002 to 2004, Dr. Conroy served as senior director, Regulatory Affairs, for Genitope Corporation, a biotechnology company. From 1995 to 2001, Dr. Conroy held several positions at Roche Global Development, a pharmaceutical company, including Regulatory Program Director with global responsibilities. From 1989 to 1994, Dr. Conroy held several positions at Syntex Laboratories, a pharmaceutical company including Manager of Medical Services Department, Drug Information Service. From 1982 to 1989, Dr. Conroy served as Staff Pharmacist at St. Luke's Hospital in Colorado. She holds a Pharm.D. from the University of Kansas, School of Pharmacy, and a B.S. in pharmacy from the University of Colorado, School of Pharmacy.

Christopher Dammann has served as our Vice President, Business Development since January 2006. From December 2004 to January 2006, Mr. Dammann was an independent consultant, advising biotechnology clients on their partnering strategies. From August 2001 to August 2004, Mr. Dammann served as Executive Director of Corporate Partnering at Clearview Projects, a business development consulting firm. From July 2000 to August 2001, Mr. Dammann was Director of Corporate Development at ALZA Corporation, a pharmaceutical company. Mr. Dammann holds an M.B.A. from Indiana University and a B.S. from the University of South Dakota.

Tracy J. Dunn, Ph.D., J.D. has served as our Vice President, Intellectual Property and Legal Affairs since 2002. From 1996 to 2002, Dr. Dunn served as Director of Intellectual Property at Aviron, a biotechnology company, and subsequently at Medimmune Vaccines, Inc., a biotechnology company. From 1991 to 1996, Dr. Dunn was a patent attorney at Townsend and Townsend and Crew in Palo Alto, California. Dr. Dunn holds B.S., Ph.D. and J.D. degrees from the University of Wisconsin, where he also completed a National Cancer Institute post-doctoral research fellowship.

Carol A. Francisco, Ph.D., joined as our Vice President, Biostatistics & Data Management in April 2008. Prior to joining the Company, Dr. Francisco was Vice President of Biostatistics at ICON Clinical Research, Inc., a clinical research organization since 2000. From 1995 to 1999, Dr. Francisco held the position of Vice President, Biostatistics and Data Management at Pacific Research Associates, Inc., a

contracts services company. From 1994 to 1995, Dr. Francisco served as Director, Biostatistics Department at Hoffman-La Roche, Inc., a pharmaceutical company. From 1986 to 1994, Dr. Francisco was Department Head, Biostatistics Department at Syntex Laboratories, Inc., a pharmaceutical company. Dr. Francisco holds a holds a Ph.D. in statistics from Iowa State University, a M.A. in psychology from Western Washington University and a B.A. from Western Washington State College.

Steven Love has served as our Vice President, Finance since August 2007. From 2004 to 2007, Mr. Love served as Vice President, Finance and Administration for Connetics Corporation, a specialty pharmaceutical company acquired by Stiefel Laboratories, Inc. in December 2006. From 2002 to 2004, Mr. Love served as Vice President, Finance at Informatica Corporation, a software company. From 1999 to 2002, Mr. Love held positions of increasing responsibility at Portal Software, Inc., a software company, including Senior Director, Worldwide Sales Operations, and Corporate Controller. Mr. Love also served as a Manager, Assurance and Advisory Business Services at Ernst & Young LLP, an independent registered public accounting firm. Mr. Love holds B.S. and M.A. degrees in accounting from the University of Southern California.

Grace U. Shin, J.D. has served as our Vice President, Legal Affairs and Corporate Counsel since October 2006. From May 1997 to April 2006, Ms. Shin served as Corporate Counsel to FibroGen, Inc., a biotechnology company, and since 2000 held the position of Vice President of Legal Affairs and Corporate Counsel. From 1992 to 1997, Ms. Shin was a corporate attorney at Pacific Gas & Electric Company, a public utility. From to 1989 to 1992, Ms. Shin was a business associate at Cooley Godward, LLP, a law firm. Ms. Shin holds a J.D. from the University of Michigan Law School and a B.A. from the University of Michigan School of Business Administration.

Robert F. Venteicher, Ph.D., has served as our Vice President, Technical Operations since August 2007. From 1995 to 2007, Dr. Venteicher held several positions at Elan Pharmaceuticals, Inc., a pharmaceutical company, most recently as Vice President, R&D Quality and Compliance. From 1992 to 1995, Dr. Venteicher held several positions at Univax Biologics, Inc., a pharmaceutical company, including Vice President, Quality Assurance/Quality Control. From 1988 to 1992, Dr. Venteicher was Head, R&D Pharmaceutical Quality Control and Associate Director of Bioprocess and Analytical Development at Centocor Inc., a biotechnology company. Dr. Venteicher also held scientific and management positions with increasing responsibilities during his 10-year tenure at Hoffmann LaRoche, Inc., a pharmaceutical company. Dr. Venteicher holds a Ph.D. in chemistry from Pennsylvania State University and a B.S. in chemistry from Iowa State University. Dr. Venteicher completed postdoctoral training in biochemistry and biophysics at Johnson Research Foundation, University of Pennsylvania.

Peter R. Young, Ph.D., has served as our Vice President, Research since July 2007. From 2003 to 2007, Dr. Young served as Vice President of Biology at two biotechnology companies, Genelabs Technologies Inc., a pharmaceutical company, and Celera Genomics, a biotechnology company. From 2002 to 2003, Dr. Young held the position of Vice President, Research at Sugen Inc., a pharmaceutical company. From 1991 to 2001, Dr. Young was Director, Metabolic Diseases and Cardiovascular Diseases at DuPont Pharmaceuticals/Bristol-Myers Squibb, a pharmaceutical company. Dr. Young also held scientific and management positions with increasing responsibilities during his 16-year tenure at SmithKline Beecham (now GlaxoSmithKline), a pharmaceutical company. Dr. Young holds a Ph.D. in molecular biology from the University of Pennsylvania, and an M.A. and B.A. in chemistry from University of Oxford, United Kingdom.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Company's executive compensation program is intended to align executive goals and rewards with the Company and stockholder goals and progress as the Company advances as a biopharmaceutical company. This description of compensation policies and practices applies to the Company's Chief Executive Officer (Ms. Morris), Executive Vice President of Corporate Development and Chief Financial Officer (Mr. Cleveland), Executive Vice President of Research and Development (Dr. Naso), and Vice President of Finance (Mr. Love), who are collectively referred to as the "named executive officers." Dr. Naso retired from the Company at the end of 2007.

Role of our Compensation Committee

The Compensation Committee acts on behalf of the Board in fulfilling the Board's responsibilities to oversee the Company's compensation policies, plans and programs, and to review and determine the compensation to be paid to the Company's executive officers and directors; compensation includes salary, long-term incentives, bonuses, perquisites, equity incentives, severance arrangements, retirement benefits and other related benefits and benefit plans. The Compensation Committee is composed entirely of non-employee directors.

Historically, the Compensation Committee has evaluated corporate performance objectives and made or proposed adjustments to annual compensation and determined bonus and equity awards at one or more meetings held during the first quarter of the year or at the end of the preceding year. However, the Compensation Committee also considers matters related to individual compensation, such as compensation for new executive hires, as well as broader strategic issues, including the effectiveness of the Company's compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation in the life sciences industry, at various meetings throughout the year. Generally, the Compensation Committee's process focuses on two related elements: the evaluation of performance objectives, both for the individual and for the Company, and the determination of compensation levels taking into consideration the target compensation for the individual based on industry surveys and the overall performance against objectives. For executives other than the Chief Executive Officer, the Compensation Committee solicits and considers evaluations and recommendations submitted to the Compensation Committee by the Chief Executive Officer. In the case of the Chief Executive Officer, the evaluation of her performance is conducted by the Compensation Committee, which proposes to the Board adjustments to her compensation as well as awards to be granted.

For additional information relating to the composition, role and responsibilities of the Compensation Committee, see "Information Regarding the Board of Directors and Corporate Governance—Committees of the Board of Directors—Compensation Committee."

Compensation Program Objectives

The Company's executive compensation program is designed to achieve the following objectives:

- attract and retain talented and experienced executives in an extremely competitive labor market of biotechnology and pharmaceutical companies located in Northern California;
- motivate and reward key contributors whose knowledge, skills and performance are critical to growing our business and advancing our lead product candidate, Hematide™, through clinical trials towards commercialization;

- provide a compensation package that includes performance-based rewards and aligns rewards with accomplishment of objectives;
- provide performance-based rewards for the accomplishment of planned Company's and/or individual's achievement of goals;
- ensure fairness among the executive management team by recognizing the contributions each executive makes to the Company's progress and achievement of corporate goals; and
- foster teamwork and a shared commitment among executives to overall corporate progress by aligning the Company's and their individual goals.

Components of the Executive Compensation Program

For 2007, the principal components of the Company's executive compensation program consisted of:

- base salary;
- eligibility for an annual cash bonus;
- equity incentives primarily in the form of stock options; and
- severance protection.

The Company utilizes short-term compensation, including base salary and cash bonuses, to recognize the experience, skills, knowledge and responsibilities required of each named executive officer, to meet competitive market conditions, and to motivate and reward key executives to perform. The Company may award annual performance bonuses of up to a percentage of the employee's base salary depending upon achievement of annual goals and objectives. In 2007, the target bonus for the Chief Executive Officer was up to 50% of base salary and between 30-35% of base salary for the other named executive officers. The Chief Executive Officer's bonus is based solely on the goals of the Company, and the other named executive officers' bonuses are based on a combination of company and individual goals. In addition, equity incentives, through the grant of stock options, are designed to directly align interests of the named executive officers with the interests of the stockholders over the long-term and encourage the growth of stockholder value through upside potential. The Company targets maintenance of equity ownership levels for the Chief Executive Officer consistent with ownership levels of Chief Executive Officers of comparable companies.

Competitive Market Review

The Compensation Committee annually reviews executive compensation of the named executives officers with those reported for peer companies in the Northern California biotechnology and pharmaceutical industry to ensure that total compensation (base salary, annual bonus targets, and stock ownership) is market competitive, based on business and individual performance, and fair, based on internal equity in pay practices. The Company participates in an annual, national survey of executive compensation of approximately 590 biotechnology companies conducted by Radford Surveys + Consulting, or Radford. During 2007, the Compensation Committee retained the services of Radford to advise on executive and Board of Directors compensation including assessing pay philosophy, identifying a peer group of companies, benchmarking compensation levels for executive positions, identifying long-term incentive trends in the industry, reviewing equity grant guidelines for competitiveness, and designing program recommendations to align our business strategy and market practices.

The group of peer companies is reviewed annually and updated by the Compensation Committee based on the criteria of similarly-sized companies by market capitalization, employee size, stage of

development, and companies with which the Company regularly competes for talent. Eighteen public biotechnology and biopharmaceutical companies were in the selected peer group for the 2007 compensation review and benchmarking process: Alexza Pharmaceuticals, Arena Pharmaceuticals, Cytokinetics, Geron, Nuvelo, Onyx Pharmaceuticals, Xenoport, Maxygen, Sunesis Pharmaceuticals, Kosan Biosciences, Tercica, Cell Genesys, Telik, Rigel, Theravance, Intermune, CV Therapeutics and Exelixis.

As the Company competes with larger biotechnology and pharmaceutical companies for talent in Northern California, a very competitive labor market, the Company's philosophy is to use a guideline base compensation target generally at the 60th percentile of compensation compared to peer company data for benchmarked, comparable positions. For 2007, this represented approximately a 4-5% increase in base salary over 2006. This approach applies to the named executive officers and generally to all positions company-wide, except that individual pay may range substantially below or above those percentiles depending upon job function, scope of responsibility, individual performance and experience, skills, contribution, and market factors when, in the judgment of management and the Compensation Committee, with respect to executive officers, the value of the individual's experience, performance and specific skills-justified variation. As a result, competitively superior pay is given to the superior performers and the compensation increases target the strongest performers.

Performance and Compensation Process

At the beginning of each year, the Board of Directors in consultation with the Chief Executive Officer establishes corporate objectives that it believes are the most significant goals for the Company in the upcoming year and that are critical to the success of the Company in the short and long-term. These corporate objectives normally include departmental, functional goals as well as project-based, cross-functional goals. These corporate objectives typically include associated target achievement dates and are normally reviewed and may be updated or adjusted by the Board of Directors in consultation with the Chief Executive Officer at mid-year, if determined appropriate. In 2007, the corporate objectives included goals relating to the achievement of Hematide clinical and regulatory milestones, commercial plan objectives related to Hematide, business development related activities, progress of manufacturing related activities, advancement of a research program, and achievement of an accounting compliance certification and cash consumption targets. The Company does not disclose the specific goals as they contain competitively sensitive information and are not material to an understanding of compensation awards to the named executive officers.

The Compensation Committee considers actual results against the specific deliverables associated with the corporate objectives, the extent to which each goal was a significant stretch goal for the organization, whether significant unforeseen obstacles or changes in circumstances altered the expected difficulty of achieving the goal or modified the desired results, and the extent to which economic assumptions underlying the performance targets were accurate. The corporate objectives established by the Board in 2007 were intended to be value-building and moderately difficult to achieve. The Compensation Committee determined that the Company achieved 82.25% of its objectives for 2007 based on (i) continued progress and related clinical and regulatory development of Hematide, including initiation of Phase 3 clinical trials for the renal program despite a challenging regulatory environment for erythropoiesis stimulating agents (ii) advancement of collaboration activities, commercial development plans and manufacturing progress towards specific technical and development goals for Hematide, (iii) advancement of manufacturing and toxicology activities for a research program, and (iv) progress towards achievement of an accounting compliance certification. In recent years, the Company achieved 85% of its corporate objectives for 2006, 90% of its corporate objectives for 2005 and 80% of its corporate objectives for 2004.

Ms. Morris' performance is evaluated against achievement of the corporate objectives while each of the other named executive officers' performance is evaluated against a combination of corporate

objectives and specific individual objectives related to the executive officer's functional responsibilities. The individual performance objectives are generally designed to align the goals of the executive officer and his or her department in support of the corporate objectives and development of the organization.

For 2007, the individual performance objectives for Dr. Naso related to, among other things, clinical and development accomplishments for Hematide, manufacturing progress towards specific technical and development goals for Hematide, advancement of a research program, collaboration responsibilities and achieving budgetary targets. Mr. Cleveland's 2007 individual performance objectives primarily related to the achievement of an accounting compliance certification, improvement of financial and budgetary systems, and management of the activities of certain departments. Mr. Love joined the Company in August 2007 and his individual performance objectives for the remainder of the year were primarily focused on the achievement of an accounting compliance certification and the improvement of accounting, financial and budgetary systems. At the end of each year, the Chief Executive Officer and the other named executive officers typically prepare a written self-assessment of their individual performance during the year which is considered by their supervisor or in the case of the Chief Executive Officer, the Compensation Committee and the Board as part of the full assessment of performance. In the case of the Chief Executive Officer's performance, the Compensation Committee also obtains the assessments of the Board members (other than Ms. Morris) and provides a summary and recommendation to the Board in conjunction with its assessment of accomplishments of corporate objectives. For the other named executive officers, the Chief Executive Officer presents to the Compensation Committee management's assessment of each named executive officer's performance during the year, including percentage achievement of such individual's specific performance objectives and a summary of the accomplishments in the related functional area of responsibility.

At the end of 2007, Ms. Morris assessed the performance of the other named executive officers and reviewed the individual accomplishments with the Compensation Committee. In general, individual performance is evaluated based on leadership and the achievement of operational, functional or product specific goals. For 2007, Ms. Morris determined that Dr. Naso had achieved 90% of his individual performance objectives based upon his excellence in leadership to integrate business and scientific considerations and manage (i) the continued progress and related clinical and regulatory development of Hematide, including initiation of Phase 3 clinical trials for the renal program, (ii) advancement of collaboration activities, commercial development plans, and manufacturing progress towards specific technical and development goals for Hematide, and (iii) advancement of manufacturing and toxicology activities for a research program. Ms Morris determined that Mr. Cleveland had achieved 70% of his individual performance objectives primarily based on his strategic leadership and the achievement of an accounting compliance certification, improvement of financial and budgetary systems, and management of the activities of certain departments. Ms. Morris determined that although Mr. Love had only recently joined the Company, he immediately made important contributions to the financial and accounting operations of the Company and achieved 80% of his individual performance objectives primarily based on the achievement of an accounting compliance certification and the improvement of accounting, financial and budgetary systems. The Compensation Committee reviewed the individual accomplishments in conjunction with Ms. Morris for the other named executive officers and confirmed the determination that Dr. Naso had achieved 90% of his individual performance objectives, Mr. Cleveland had achieved 70% of his individual performance objectives, and Mr. Love had achieved 80% of his individual performance objectives. The Compensation Committee takes into consideration the accomplishment of the individual performance objectives as well as the achievement of the corporate goals in formulating its recommendations for the annual bonuses and other compensation recommendations to the Board of Directors.

In addition, in determining the long-term incentive component of executive compensation, the Compensation Committee considers the Company's performance and the attainment of individual performance objectives, the value of similar incentive awards given to executive officers of comparable

companies, the awards given to the named executive officers in past years, and percentage ownership which is vested and unvested. The Compensation Committee views equity compensation as the basis for long-term incentive compensation. Based on this philosophy, stock option grants for each executive officer are determined based upon consideration of such executive officer's percentage ownership of the Company, relative to the percentage ownership of such executive officer's peers working at peer companies, and an evaluation of such executive officer's individual performance.

Executive Compensation Actions

The Compensation Committee's recommendation of base salary increases, stock option grants, and performance bonuses to the named executive officers were made to the independent members of the Board of Directors after reviewing the performance of such named executive officers, taking into consideration the achievement of the Board approved corporate objectives, as well as the analysis by Radford, which included a comparison to the benchmark data of corresponding executive positions in the identified peer companies. Ms. Morris is not permitted to be present during the deliberations regarding her compensation.

Based on the recommendations and assessment by the Compensation Committee, the Board of Directors approved the following:

Arlene M. Morris, President and Chief Executive Officer

Actions for 2007

- *Base Salary.* In January 2007, a $30,404 increase in 2007 base salary to $464,744 effective January 1, 2007, which represented a 7% increase from the prior year's salary.
- *Equity Incentives.* In January 2007, Ms. Morris was granted stock options exercisable for 100,000 shares with an exercise price of $33.97 per share. The stock options vest in 48 equal monthly installments over the four (4) year period beginning on January 1, 2007.
- *Annual Performance Bonus.* In December 2007, Ms. Morris was awarded a cash bonus of $191,126 related to 2007 performance. For 2007, this bonus represented 41% of Ms. Morris' 2007 base salary and was based on her target bonus eligibility of 50% of base salary, and the achievement of 82.25% of the corporate objectives.

Actions for 2008

- *Base Salary.* In December 2007, a $46,474 increase in 2008 base salary to $511,218 effective January 1, 2008, which represented a 10% increase from the prior year's salary comprised of a 5% merit increase and a 5% market adjustment to align Ms. Morris' base salary at the 50th percentile level of identified peer company data.
- *Equity Incentives.* In December 2007, Ms. Morris was granted stock options exercisable for 60,000 shares with an exercise price of $21.74 per share. The number of stock options granted was consistent with the guidelines recommended by Radford as well as based in part on the retention value considering the fact that Ms. Morris' existing options were significantly vested. The stock options vest in 48 equal monthly installments over the four (4) year period beginning on January 1, 2008.

Paul B. Cleveland, Executive Vice President, Corporate Development and Chief Financial Officer

Actions for 2007

- *Base Salary.* In January 2007, a $15,000 increase in 2007 base salary to $315,000 effective January 1, 2007, which represented a 5% increase from the prior year's salary.

- *Equity Incentives.* In January 2007, Mr. Cleveland was granted stock options exercisable for 28,000 shares with an exercise price of $33.97 per share. The stock options vest in 48 equal monthly installments over the four (4) year period beginning on January 1, 2007.
- *Annual Performance Bonus.* In December 2007, Mr. Cleveland was awarded a cash bonus of $87,318 related to 2007 performance. For 2007, this bonus represented 28% of Mr. Cleveland's 2007 base salary and was based on his target bonus eligibility of 35% of base salary and the combined weighting of (i) 75% of the corporate performance (based upon the achievement of 82.25% of the corporate objectives) and (ii) 25% of individual performance (based upon achievement of 70% of his personal objectives).

Actions for 2008

- *Base Salary.* In December 2007, a $12,600 increase in 2008 base salary to $327,600 effective January 1, 2008, which represented a 4% increase from the prior year's salary and to maintain Mr. Cleveland's base salary between the 50th and 60th percentile level of identified peer company data.
- *Equity Incentives.* In December 2007, Mr. Cleveland was granted stock options exercisable for 20,000 shares with an exercise price of $21.74 per share. The number of stock options granted was consistent with the guidelines recommended by Radford. The stock options vest in 48 equal monthly installments over the four (4) year period beginning on January 1, 2008.

Robert B. Naso, Ph.D., Executive Vice President, Research & Development

Actions for 2007

- *Base Salary.* In January 2007, a $21,350 increase in 2007 base salary to $377,183 effective January 1, 2007, which represented a 6% increase from the prior year's salary.
- *Equity Incentives.* In January 2007, the Board of Directors granted Dr. Naso stock options exercisable for 80,000 shares with an exercise price of $33.97 per share. The stock options vest in 48 equal monthly installments over the four (4) year period beginning on January 1, 2007.
- *Annual Performance Bonus.* In December 2007, Dr. Naso was awarded a cash bonus of $111,156 related to 2007 performance. For 2007, this bonus represented 30% of Dr. Naso's 2007 base salary and was based on his target bonus eligibility of 35% of base salary and the combined weighting of (i) 75% of the corporate performance (based upon achievement of 82.25% of the corporate objectives) and (ii) 25% of individual performance (based upon achievement of 90% of his personal objectives).

Dr. Naso retired at the end of 2007.

Steven Love, Vice President, Finance

Actions for 2007

- *Base Salary and Equity Incentives.* Mr. Love joined the Company in August 2007 with a base salary of $240,000 based on his compensation prior to joining the Company, and received a new hire grant for stock options exercisable for 40,000 shares with an exercise price of $24.87 per share. The stock options vest 25% upon Mr. Love's completion of 1 year of service on August 20, 2008 and the remaining balance of the stock options vest in 36 equal monthly installments over the three (3) year period beginning on August 20, 2008.
- *Annual Performance Bonus.* In December 2007 Mr. Love was awarded a cash bonus of $19,464 related to 2007 performance. For 2007, this bonus represented 24% of his 2007 base salary

(pro-rated for his term of employment during the year) and was based on his target bonus eligibility of 30% of base salary and the combined weighting of (i) 50% of the corporate performance (based upon achievement of 82.25% of the corporate objectives) and (ii) 50% of individual performance (based upon achievement of 80% of his personal objectives).

Actions for 2008

- *Base Salary.* In December 2007, a $2,400 increase in 2008 base salary to $242,400 effective January 1, 2008, which represented a 3% increase (pro-rated for his term of employment during the year) from Mr. Love's starting base salary established at approximately the 75th percentile level of identified peer company data.
- *Equity Incentives.* In December 2007, the Board of Directors granted Mr. Love stock options exercisable for 6,000 shares with an exercise price of $21.74 per share. The number of stock options granted was consistent with the guidelines recommended by Radford after adjusting for the partial year of employment with the Company. The stock options vest in 48 equal monthly installments over the four (4) year period beginning on January 1, 2008.

Ali Mahdavi, Vice President, Finance and Administration

Actions for 2007

- *Base Salary.* In January 2007, a $9,535 increase in 2007 base salary to $247,910 effective January 1, 2007, which represented a 4% increase from the prior year's salary.
- *Equity Incentives.* In January 2007, Mr. Mahdavi was granted stock options exercisable for 22,000 shares with an exercise price of $33.97 per share. The stock options vest in 48 equal monthly installments over the four (4) year period beginning on January 1, 2007.

Mr. Mahdavi resigned from the Company in May 2007.

Equity Grant Practices

Our equity grant date practices require that stock options and other equity compensation have prices determined based on the fair market value on the date of grant. The fair market value of our grants of equity awards is the closing price on the NASDAQ Global Market on the date of approval of the grant by the Board, the Compensation Committee or the Stock Option Committee. During 2007, the Board delegated authority to a committee composed of certain officers of the Company, the Stock Option Committee, to grant stock options to non-officer employees pursuant to the Company's 2006 Equity Incentive Plan in accordance with guidelines approved by the Compensation Committee from time to time.

Employee Stock Purchase Plan

In December 2006, the Company's 2006 Employee Stock Purchase Plan, or the Purchase Plan, became effective in connection with the Company's initial public offering. The Purchase Plan enables the named executive officers generally on the same basis as all employees to purchase, through payroll deductions, shares of the Company's common stock without payment of brokerage costs at a discount from the fair market value of the common stock at the time of purchase.

EMPLOYMENT AGREEMENTS AND POTENTIAL PAYMENTS UPON TERMINATION OR A CHANGE OF CONTROL

In June 2003, the Company entered into an employment agreement with Ms. Morris. The agreement provides that Ms. Morris is employed "at-will," and the employment relationship may be terminated for any reason at any time. However, if Ms. Morris is involuntarily terminated for reasons

other than misconduct or her voluntary resignation following a material reduction in her duties, a reduction in her compensation by more than 10%, or a relocation of our primary office location by more than 35 miles, she will receive severance pay equal to nine months' base salary and will be able to exercise any vested stock option shares that have been granted to her until the earlier of one year following the date of termination or the expiration of the term of any such option. The Company will also be required to reimburse Ms. Morris for up to nine months of COBRA premiums or until she receives health insurance coverage through a new employer. In the event of a change of control of the Company and Ms. Morris' involuntary termination within 12 months of such change of control of the Company, she will receive severance pay equal to 12 months' base salary and the Company will be required to reimburse Ms. Morris for up to 12 months of COBRA premiums or until she receives health insurance coverage through a new employer. Ms Morris will also be able to exercise any vested stock option shares that have been granted to her until the earlier of one year following the date of termination or the expiration of the term of any such option, and the vesting of all outstanding options will be accelerated so that all options are vested in full and we have no right to repurchase any earlier exercised shares. In the event of termination due to Ms. Morris's death or disability, Ms. Morris's employment agreement provides for certain benefits including the acceleration of outstanding options as described below.

The following table quantifies certain payments which may become due to Ms. Morris assuming that one of the events listed above had occurred as of December 31, 2007.

Executive Benefits and Payments upon Termination	Involuntary Termination	Resignation or Termination Other than Involuntary Termination	Termination for Death or Disability	Involuntary Termination Following a Change of Control(1)
Compensation:				
Severance payment	$237,613(2)	$ —	$ —	$ 316,817(3)
Accelerated stock options .	—	—	484,812(4)	1,939,305(5)
Benefits and perquisites:				
Health care	15,193(6)	—	—	20,257(7)
Accrued vacation pay	—	28,597(8)	28,597(8)	—

(1) A change of control under Ms. Morris' employment agreement includes the merger, consolidation or other reorganization of the Company, the sale of all or substantially all of the Company's assets, and a change of a majority of the membership of the Company's Board (other than by approval by a majority of incumbent directors) since the commencement of Ms. Morris' employment.

(2) Represents 9 months of base salary less applicable withholdings and deductions.

(3) Represents 12 months of base salary less applicable withholdings and deductions.

(4) An additional 25% of outstanding stock options held by Ms. Morris will become vested and exercisable upon her termination due to her death or disability. The value of the accelerated stock options was calculated by taking the difference between the closing market price of our common stock of $22.36 as reported on the NASDAQ Global Market on December 31, 2007 and the exercise price of each accelerated stock option that was in-the-money at December 31, 2007.

(5) All unvested stock options held by Ms. Morris will become vested and exercisable in full upon her involuntary termination following a change of control. The value of the accelerated stock options was calculated by taking the difference between the closing market price of our common stock of $22.36 as reported on the NASDAQ Global Market on December 31, 2007 and the exercise price of each accelerated stock option that was in-the-money at December 31, 2007.

(6) Payment of COBRA health insurance premiums up to 9 months or until Ms. Morris becomes eligible for group health insurance through a new employer.

(7) Payment of COBRA health insurance premiums up to 12 months or until Ms. Morris becomes eligible for group health insurance through a new employer.

(8) Based on vacation days accrued as of December 31, 2007.

In November 2005, the Company entered into an employment agreement with Mr. Cleveland. The agreement provides that Mr. Cleveland is employed "at-will," and the employment relationship may be terminated for any reason at any time. However, if Mr. Cleveland is terminated without good cause, he will receive severance pay of six months' base salary and will be able to exercise any vested stock option shares that have been granted to him until the earlier of one year following the date of termination or the expiration of the term of any such option. The Company is also required to reimburse Mr. Cleveland for up to 12 months of COBRA premiums or until he receives health insurance coverage through a new employer. The agreement also provides that in the event of a change of control of the Company and Mr. Cleveland's involuntary termination without cause within six months of the change of control of the Company, all of the then-unvested portion of his stock options may become immediately fully vested. As a condition of receipt of any severance benefits, extended exercise period or accelerated vesting under his employment agreement, Mr. Cleveland is obligated to execute a release of claims.

In July 2007, the Company entered into an employment agreement with Mr. Love. The agreement provides that Mr. Love is employed "at-will," and the employment relationship may be terminated for any reason at any time. However, if Mr. Love is terminated without good cause, he will receive severance pay of six months' base salary and will be able to exercise any vested stock option shares that have been granted to him until the earlier of one year following the date of termination or the expiration of the term of any such option. The Company is also required to reimburse Mr. Love for up to 12 months of COBRA premiums or until he receives health insurance coverage through a new employer. The agreement also provides that in the event of a change of control of the Company and Mr. Love's involuntary termination without cause within six months of the change of control of the Company, all of the then-unvested portion of his stock options may become immediately fully vested. As a condition of receipt of any severance benefits, extended exercise period or accelerated vesting under his employment agreement, Mr. Love is obligated to execute a general release of claims.

The following table quantifies certain payments which would have become due to Mr. Cleveland and/or Mr. Love assuming that one of the events listed above occurred as of December 31, 2007.

Executive Benefits and Payments upon Termination	Termination for Cause	Termination Without Cause	Termination for Good Reason	Voluntary Termination	Involuntary Termination upon a Change in Control
Mr. Cleveland					
Compensation:					
Severance payment	$ —	$108,191(1)	$108,191(1)	$ —	$ —
Accelerated stock options	—	—	—	—	1,069,648(2)
Benefits and perquisites:					
Health care	—	20,257(3)	20,257(3)	—	—
Accrued vacation pay	3,566(4)	—	—	3,566(4)	—
Mr. Love					
Compensation:					
Severance payment	$ —	$ 81,361(1)	$ 81,361(1)	$ —	$ —
Accelerated stock options	—	—	—	—	3,720(2)
Benefits and perquisites:					
Health care	—	20,257(3)	20,257(3)	—	—
Accrued vacation pay	5,945(4)	—	—	5,945(4)	—

(1) Represents 6 months of base salary less applicable withholdings and deductions.

(2) All unvested stock options held by each executive will become vested and exercisable in full following his involuntary termination upon a change in control. The value of the accelerated stock options was calculated by taking the difference between the closing market price of our common stock of $22.36 as reported on the NASDAQ Global Market on December 31, 2007 and the exercise price of each accelerated stock option that was in-the-money at December 31, 2007.

(3) Payment of COBRA health insurance premiums up to 12 months or until each executive becomes eligible for group health insurance through a new employer.

(4) Based on vacation days accrued as of December 31, 2007.

In March 2004, the Company entered into an employment agreement with Dr. Naso. Dr. Naso retired from the Company effective December 31, 2007.

In August 2005, the Company entered into an employment agreement with Mr. Mahdavi. The agreement provided that Mr. Mahdavi was employed "at-will," and the employment relationship could be terminated for any reason at any time. In connection with his resignation and delivery of a release of claims against the Company, its officers and directors, he received severance pay of six months' base salary and will be able to exercise any vested stock option shares that have been granted to him until the earlier of one year following the date of termination or the expiration of the term of any such option. The Company is also required to reimburse Mr. Mahdavi for up to 12 months of COBRA premiums or until he receives health insurance coverage through a new employer.

Each of the named executive officers has also entered into a standard form agreement with respect to confidential information and inventions. Among other things, this agreement obligates each named executive officer to refrain from disclosing any of our confidential information received during the course of employment and, with some exceptions, to assign to us any inventions conceived or developed during the course of employment.

Director Compensation

During the first half of 2007, each member of our Board of Directors who is not our employee received the following cash compensation for board services, as applicable:

- $25,000 per year for service as a board member;
- $10,000 per year for service as chairman of the audit committee;
- $5,000 per year for service as chairman of the compensation committee;
- $5,000 per year for service as chairman of the nominating and corporate governance committee;
- $2,000 for each board meeting attended in person ($1,000 for meetings attended by video or telephone conference);
- $2,000 for each audit committee meeting attended;
- $1,000 for each compensation committee meeting attended; and
- $1,000 for each nominating and corporate governance committee meeting attended.

In mid-2007, our cash compensation program for non-employee directors was revised based on a Radford review with the Compensation Committee recommending role-based compensation as being more consistent with corporate governance best practices and recent trends for comparable companies. In addition to Radford's analysis, the Compensation Committee considered the importance of attracting and retaining board members, the relative workloads of the committees, and ensuring equitable compensation for members. Based on the recommendations of the Compensation Committee, the Board approved the following cash compensation program effective July 1, 2007:

- $40,000 per year for service as a board member;
- $25,000 additional per year for service as lead director of the board;
- $15,000 per year for service as a member of the audit committee;
- $10,000 additional per year for service as chairman of the audit committee;
- $10,000 per year for service as a member of the compensation committee;
- $5,000 additional per year for service as chairman of the compensation committee;
- $7,500 per year for services as a member of the nominating and corporate governance committee; and
- $2,500 additional per year for service as chairman of the nominating and corporate governance committee.

To the extent that the Board or any Committee thereof meets more than ten (10) times in any year each member will receive a per meeting fee in excess of ten (10) meetings as follows:

- $2,000 for each board meeting attended in person ($1,000 for meetings attended by video or telephone conference);
- $2,000 for each audit committee meeting attended;
- $1,000 for each compensation committee meeting attended; and
- $1,000 for each nominating and corporate governance committee meeting attended.

All non-employee Board members are reimbursed for reasonable expenses incurred in attending board or committee meetings.

Members of our Board who are not our employees receive non-discretionary, non-statutory stock options under our 2006 Equity Incentive Plan. Each non-employee director on our Board of Directors as of our 2006 initial public offering, except any such person who was elected or appointed to our Board of Directors within nine months prior to such date and received an option from us in connection with his or her initial election or appointment to our Board of Directors, was automatically granted an option to purchase 7,500 shares of our common stock with an exercise price equal to the then fair market value of our common stock on the date of grant. Each non-employee director joining our Board of Directors thereafter is automatically granted a non-statutory stock option to purchase 7,500 shares of common stock with an exercise price equal to the then fair market value of our common stock on the date of grant. In December 2007, upon Mr. Leonard's and Ms. van Heek's appointment to the Board of Directors, each received a grant of a non-statutory stock option to purchase 7,500 shares of common stock with an exercise price of $25.83 per share. On the date of each annual meeting of our stockholders, each non-employee director also is automatically granted a non-statutory stock option to purchase 2,500 shares of our common stock with an exercise price equal to the fair market value of our common stock on that date. On May 31, 2007, the date of our last annual stockholders meeting, the non-employee directors, Messrs. Douglas, Walker, Spiegelman, Dr. Galakatos, Dr. Love, Ms. LaPorte and Ms. Czerepak, each received a grant of non-statutory stock option to purchase 2,500 shares of our common stock at an exercise price of $32.89 per share. Initial grants vest monthly over three years. Automatic annual grants vest monthly over 12 months. All stock options granted under our 2006 Equity Incentive Plan have a term of ten years.

The following table shows for the fiscal year ended December 31, 2007 certain information with respect to the compensation of all non-employee directors of the Company:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)(6)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Elizabeth A. Czerepak	24,500(2)	—	18,978	—	—	43,478
R. Lee Douglas	52,500	—	108,689	—	—	158,189
Nicholas Galakatos, Ph.D.	60,500(3)	—	80,205	—	—	125,955
Hironori Hozoji(4)	4,167(5)	—	—	—	—	4,167
Kathleen LaPorte	47,500	—	80,205	—	—	124,705
John P. Walker	69,750	—	80,205	—	—	141,955
Ted W. Love, M.D.	60,000	—	82,892	—	—	135,892
Daniel K. Spiegelman	70,000	—	83,822	—	—	146,822
Christi van Heek	3,333	—	3,193	—	—	6,526
Keith Leonard	3,333	—	3,193	—	—	6,526

(1) Amount reflects the total stock-based compensation expense for the year ended December 31, 2007 calculated in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, or SFAS No. 123(R), using the modified prospective method for unvested awards as of January 1, 2006 and excluding estimates of forfeitures. See Note 8 of the Notes to Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions made in determining the grant date fair value and stock-based compensation expense of equity awards.

(2) Ms. Czerepak requested such amounts to be paid to Bear Stearns Health Innoventures Management LLC. Ms. Czerepak resigned as a director of the Company effective in June 2007.

(3) Dr. Galakatos requested that such amounts be paid to MPM Asset Management LLC.

(4) Mr. Hozoji declined any issuance of stock options pursuant to the Board compensation program effective upon the Company's initial public offering in 2006. Mr. Hozoji resigned as a director of the Company effective in February 2007.

(5) Mr. Hozoji requested that such amounts be paid to JAFCO America Ventures, Inc.

(6) The grant dates and the fair value of stock option grants to our non-employee directors are set forth in the following table.

The following table shows certain information as to the grant dates and the fair market value of stock option grants to our non-employee directors:

Name	Grant Date	Number of Securities Underlying Options (#)	Exercise Price ($/Sh)	Grant Date Fair Value ($)(1)
Elizabeth A. Czerepak(2)	12/14/2006	7,500	25.00	117,767
	5/31/2007	2,500	32.89	53,943
R. Lee Douglas(3)	8/5/2004	16,250	0.80	8,718
	2/10/2006	7,500	4.36	86,973
	12/14/2006	7,500	25.00	117,767
	5/31/2007	2,500	32.89	53,943
Nicholas Galakatos, Ph.D.(4)	12/14/2006	7,500	25.00	117,767
	5/31/2007	2,500	32.89	53,943
Kathleen LaPorte(5)	12/14/2006	7,500	25.00	117,767
	5/31/2007	2,500	32.89	53,943
John P. Walker(6)	12/14/2006	7,500	25.00	117,767
	5/31/2007	2,500	32.89	53,943
Ted W. Love, M.D.(7)	7/28/2006	7,500	18.84	119,926
	5/31/2007	2,500	32.89	53,943
Daniel K. Spiegelman(8)	9/27/2006	7,500	18.84	127,112
	5/31/2007	2,500	32.89	53,943
Christi van Heek(9)	12/6/2007	7,500	25.83	123,162
Keith Leonard(10)	12/6/2007	7,500	25.83	123,162

(1) Total stock-based compensation as determined under SFAS No. 123(R). Amounts are amortized over the requisite service period for each award.

(2) As of December 31, 2007, Ms. Czerepak held no options to purchase shares of our common stock. Ms. Czerepak resigned as a director of the Company effective in June 2007 and her options outstanding expired unexercised.

(3) As of December 31, 2007, Mr. Douglas held options to purchase 33,750 shares of our common stock.

(4) As of December 31, 2007, Dr. Galakatos held options to purchase 10,000 shares of our common stock.

(5) As of December 31, 2007, Ms. LaPorte held options to purchase 10,000 shares of our common stock.

(6) As of December 31, 2007, Mr. Walker held options to purchase 10,000 shares of our common stock.

(7) As of December 31, 2007, Dr. Love held options to purchase 10,000 shares of our common stock.

(8) As of December 31, 2007, Mr. Spiegelman held options to purchase 10,000 shares of our common stock.

(9) As of December 31, 2007, Ms. van Heek held options to purchase 7,500 shares of our common stock.

(10) As of December 31, 2007, Mr. Leonard held options to purchase 7,500 shares of our common stock.

SUMMARY COMPENSATION TABLE FOR FISCAL 2007 AND 2006

The following table shows compensation awarded to or paid to, or earned by, the Company's Chief Executive Officer, Chief Financial Officer and the other named executive officers for the years ended December 31, 2007 and 2006.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Arlene M. Morris	2007	464,744	—	1,238,462	191,126(5)	—	1,894,332
President and Chief Executive Officer	2006	434,340	—	560,049	182,676(6)	556(7)	1,177,621
Paul B. Cleveland	2007	315,000	—	896,679	87,318(5)	—	1,298,997
Executive Vice President, Corporate Development and Chief Financial Officer	2006	300,000	—	347,545	66,570(6)	—	714,115
Robert B. Naso, Ph.D.	2007	377,183	—	719,219	111,156(5)	43,860(8)	1,251,418
Executive Vice President, Research and Development(2)	2006	355,833	—	210,297	78,959(6)	43,860(8)	688,949
Steven Love	2007	88,615	—	57,858	19,464(5)	—	165,937
Vice President, Finance and Chief Accounting Officer(3)							
Ali Mahdavi	2007	95,350	—	55,507	—	191,824(9)	342,681
Vice President, Finance and Administration and Chief Accounting Officer(4)	2006	238,375	—	29,644	44,099(6)	—	312,118

(1) Amount reflects the total stock-based compensation expense for the years ended December 31, 2007 and 2006 calculated in accordance with SFAS No. 123(R) using the modified prospective method for unvested awards as of January 1, 2006 and excluding estimates of forfeitures. See Note 8 of Notes to Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions made in determining the grant date fair value and stock-based compensation expense of equity awards.

(2) Dr. Naso retired at the end of 2007.

(3) Mr. Love was appointed Vice President, Finance of the Company effective August 2007.

(4) Mr. Mahdavi resigned as an officer and employee of the Company effective May 2007.

(5) Represents cash performance bonuses for 2007. Bonuses for 2007 were generally paid in the following year.

(6) Represents cash performance bonuses for 2006. Bonuses for 2006 were paid in the following year.

(7) Represents a tax gross-up on a personal benefit that was provided by the Company.

(8) Represents housing subsidy, including a gross-up for payroll taxes, received in connection with Dr. Naso's employment agreement.

(9) Represents the following amounts paid by the Company to Mr. Mahdavi in connection with his resignation as an officer and employee of the Company: $123,955 of gross severance pay in accordance with Mr. Mahdavi's separation agreement, $41,320 of gross consulting fees in connection with 2 months of consulting services provided after Mr. Mahdavi's resignation date, $26,446 of earned and unused flexible time off as of Mr. Mahdavi's resignation date and $103 refund of contributions to the Company's Employee Stock Purchase Plan.

Grants of Plan-Based Awards in Fiscal 2007

The following table shows for the fiscal year ended December 31, 2007, certain information regarding grants of plan-based awards to the named executive officers:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(3)
		Threshold ($)	Target ($)(2)	Maximum ($)				
Ms. Morris . . .		—	191,126	—	—	—	—	—
	1/5/2007	—	—	—	—	100,000	33.97	2,239,783
	12/18/2007	—	—	—	—	60,000	21.74	835,935
Mr. Cleveland .		—	87,318	—	—	—	—	—
	1/5/2007	—	—	—	—	28,000	33.97	627,139
	12/18/2007	—	—	—	—	20,000	21.74	278,645
Dr. Naso		—	111,156	—	—	—	—	—
	1/5/2007	—	—	—	—	80,000	33.97	1,791,826
Mr. Love		—	19,464	—	—	—	—	—
	9/5/2007	—	—	—	—	40,000	24.87	638,920
	12/18/2007	—	—	—	—	6,000	21.74	83,594
Mr. Mahdavi . .	1/5/2007	—	—	—	—	22,000	33.97	492,752

(1) The Company does not provide for thresholds or maximums as part of its performance bonus program. The Company's performance bonus program is described above in "Executive Compensation—Compensation Discussion and Analysis."

(2) Represents cash performance bonuses for 2007. Bonuses for 2007 were generally paid in the following year.

(3) Total stock-based compensation as determined under SFAS No. 123(R). Amounts are amortized over the requisite service period for each award.

Our executive compensation policies, practices and arrangements, pursuant to which the compensation set forth in the Summary Compensation Table and the Grants of Plan-Based Awards table was paid or awarded, are described above under "Executive Compensation—Compensation Discussion and Analysis."

Outstanding Equity Awards at Fiscal year end

The following table shows for the fiscal year ended December 31, 2007, certain information regarding outstanding equity awards at fiscal year end for the named executive officers.

	Option Awards					
Name	Option Plan	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($/Sh)	Option Expiration Date
Ms. Morris	2001	92,096(1)	—(1)	—	0.80	7/22/2013
	2001	52,000(2)	—(2)	—	0.80	12/14/2014
	2001	170,499(3)	—(3)	—	4.36	2/9/2016
	2006	22,916(4)	77,084(4)	—	33.97	1/4/2017
	2006	—(5)	60,000(5)	—	21.74	12/17/2017
Mr. Cleveland	2001	112,772(6)	—(6)	—	4.36	2/6/2016
	2006	6,416(4)	21,584(4)	—	33.97	1/4/2017
	2006	—(5)	20,000(5)	—	21.74	12/17/2017
Dr. Naso	2001	9,480(7)	—(7)	—	0.80	5/10/2014
	2001	2,167(2)	—(2)	—	0.80	12/14/2014
	2001	62,830(3)	—(3)	—	4.36	2/9/2016
	2006	18,332(4)	61,668(4)	—	33.97	1/4/2017
Mr. Love	2006	—(8)	40,000(8)	—	24.87	9/4/2017
	2006	—(5)	6,000(5)	—	21.74	12/17/2017
Mr. Mahdavi	2001	11,979(9)	—(9)	—	0.80	5/17/2008
	2001	3,125(10)	—(10)	—	0.80	5/17/2008
	2001	2,812(11)	—(11)	—	4.36	5/17/2008
	2006	2,749(12)	—(12)	—	33.97	5/17/2008

(1) 25% of the shares subject to the award vested on July 9, 2004 and the remainder vested on a monthly basis in equal installments over 36 months. This award was fully vested on July 9, 2007.

(2) The award vests on a monthly basis in equal installments during the 48 month period beginning on January 1, 2005. This award will be fully vested on January 1, 2009.

(3) The award vests on a monthly basis in equal installments during the 48 month period beginning on January 1, 2006. This award will be fully vested on January 1, 2010.

(4) The award vests on a monthly basis in equal installments during the 48 month period beginning on January 1, 2007. This award will be fully vested on January 1, 2011.

(5) The award vests on a monthly basis in equal installments during the 48 month period beginning on January 1, 2008. This award will be fully vested on January 1, 2012.

(6) 25% of the shares subject to the award vested on January 3, 2007 and the remainder vests on a monthly basis in equal installments over 36 months. This award will be fully vested on January 3, 2010.

(7) 25% of the shares subject to the award vested on April 26, 2005 and the remainder vests on a monthly basis in equal installments over 36 months. This award will be fully vested on April 26, 2008.

(8) 25% of the shares subject to the award will vest on August 20, 2008 and the remainder will vest on a monthly basis in equal installments over 36 months. This award will be fully vested on August 20, 2011.

(9) 25% of the shares subject to the award vested on September 9, 2004 and the remainder vests on a monthly basis in equal installments over 36 months. This award was fully vested on September 9, 2007.

(10) The award vests on a monthly basis in equal installments during the 48 month period beginning on January 1, 2005. The award ceased vesting in connection with Mr. Mahdavi's resignation from the Company.

(11) The award vests on a monthly basis in equal installments during the 48 month period beginning on January 1, 2006. The award ceased vesting in connection with Mr. Mahdavi's resignation from the Company.

(12) The award vests on a monthly basis in equal installments during the 48 month period beginning on January 1, 2007. The award ceased vesting in connection with Mr. Mahdavi's resignation from the Company.

Option Exercises and Stock Vested in Fiscal 2007

The following table shows certain information regarding option exercises and stock vested during the last fiscal year with respect to the named executive officers:

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)
Ms. Morris	80,190	2,048,229
Mr. Cleveland	—	—
Dr. Naso	73,355	1,931,937
Mr. Love	—	—
Mr. Mahdavi	—	—

(1) The value realized upon exercise of the stock options was calculated by taking the difference between the fair value of our common stock on the stock option exercise date and the exercise price of each stock option.

Transactions With Related Persons

Related-Person Transactions policy and Procedures

The following includes a description of transactions during 2007 in which the amount involved in the transaction exceeds $120,000, and in which any of our directors, executive officers, or holders of more than 5% of our capital stock had or will have a direct or indirect material interest, other than equity and other compensation, termination, change-in control and other arrangements, which are separately described under "Executive Compensation".

Pursuant to our Code of Business Conduct and Ethics and our Audit Committee Charter, our executive officers, directors, and principal stockholders, including their immediate family members and affiliates, and other employees and their family members are not permitted to enter into a related party transaction with us without the prior consent of our Audit Committee, or other independent committee of our Board of Directors in the case it is inappropriate for our Audit Committee to review such transaction due to a conflict of interest. Any request for us to enter into a transaction with an executive officer, director, principal stockholder, or any of such persons' immediate family members or affiliates, in which the amount involved exceeds $120,000, or other transactions that may give rise to a conflict of interest, must first be presented for approval. Related party transactions involving our officers, directors or principal stockholders, including their immediate family members and affiliates, must be presented to our Audit Committee for review, consideration and approval. Conflict of interest transactions with other employees and their family members must be presented to our compliance officer for review. All of our directors, executive officers and employees are required to report to our Audit Committee or our Compliance Officer any such related party or conflict of interest transaction. In approving or rejecting the proposed agreement, our Audit Committee or Compliance Officer shall consider the relevant facts and circumstances available and deemed relevant, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence. Our Audit Committee or Compliance Officer shall approve only those agreements that, in light of known circumstances, are in, or are not inconsistent with, our best interests, as determined in a good faith exercise of discretion. All of the transactions described below were approved by our Board of Directors.

We have entered into employment agreements with our executive officers. For a description of these employment agreements, see "Executive Compensation—Employment Agreements and Potential Payments upon Termination or a Change of Control."

We have granted stock options to our directors and executive officers. For a description of these options, see "Executive Compensation—Grants of Plan-Based Awards in Fiscal 2007," "Executive Compensation—Outstanding Equity Awards at Fiscal Year-End" and "Executive Compensation—Director Compensation."

We have entered, and intend to continue to enter, into separate indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our Bylaws. These agreements, among other things, require us to indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request.

Security Ownership Of Certain Beneficial Owners And Management

The following table sets forth certain information regarding the ownership of the Company's common stock as of February 15, 2008 by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all executive officers and directors of the Company as a group; and (iv) all those known by the Company to be beneficial owners of more than five percent of its common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned(†)	Percentage of Shares Beneficially Owned
5% Stockholders		
Apax Managers Europe, and affiliated entities(1)	1,653,938	10.92%
Apax Managers, Inc., and affiliated entities(2)	1,268,288	8.37%
Bear Stearns Health Innoventures Management LLC and affiliated entities(3)	1,146,551	7.57%
FMR LLC(4)	1,446,996	9.55%
Glaxo and affiliated entities(5)	848,293	5.60%
MPM BioVentures II-QP, LP and affiliated entities(6)	1,600,469	10.57%
Sprout Capital IX, L.P. and affiliated entities(7)	1,572,145	10.38%
Directors and Named Executive Officers		
R. Lee Douglas(8)	29,166	*
Nicholas Galakatos, Ph.D(6)(9)	1,624,635	10.72%
Kathleen LaPorte(7)(9)	1,577,561	10.41%
Keith Leonard(10)	833	*
Ted Love(11)	9,583	*
Daniel K. Spiegelman(12)	9,583	*
Christi van Heek(10)	833	*
John P. Walker(10)	5,416	*
Arlene M. Morris(13)	349,593	2.26%
Paul B. Cleveland(14)	124,711	*
Robert B. Naso, Ph.D.(15)	77,442	*
Steven Love(10)	374	*
Ali Mahdavi(16)	38,818	*
All directors and executive officers as a group (15 persons)(17)	3,921,357	24.73%

† This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13G filed with the SEC. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, the Company 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. Applicable percentages are based on 15,144,719 shares of common stock outstanding as of February 15, 2008, adjusted as required by rules promulgated by the SEC. Shares of common stock subject to options currently exercisable or exercisable within 60 days of February 15, 2008, are deemed outstanding for computing the percentage of beneficial ownership of the person holding such options but are not deemed outstanding for computing the percentage of beneficial ownership of any other person. Unless otherwise noted, the address for the reporting owner is: c/o Affymax, Inc., 4001 Miranda Ave., Palo Alto, CA 94304.

* Represents beneficial ownership of less than one percent.

(1) The address for the reporting owner is: 15 Portland Place, London, England W1B 1PT. Apax Managers Europe is the discretionary investment manager of the Europe V Funds (as defined

below). Apax Europe V GP Co Ltd is the general partner of Apax Europe V GP, L.P., a Delaware limited partnership (the "General Partner of the Europe V Funds"). The General Partner of the Europe V Funds is the general partner of certain private equity funds, including: (i) Apax Europe V-A, L.P., a Delaware limited partnership ("Europe V-A"), (ii) Apax Europe V-B, L.P., an English limited partnership ("Europe V-B"), (iii) Apax Europe V-C GmbH & Co. KG, a German limited partnership ("Europe V-C"), (iv) Apax Europe V-D, L.P., an English limited partnership ("Europe V-D"), (v) Apax Europe V-E, L.P., an English limited partnership ("Europe V-E"), (vi) Apax Europe V-F, C.V., a Dutch limited partnership ("Europe V-F"), (vii) Apax Europe V-G, C.V., a Dutch limited partnership ("Europe V-G"), (viii) Apax Europe V-1, L.P., an English limited partnership ("Europe V-1"), and (ix) Apax Europe V-2, L.P., an English limited partnership ("Europe V-2" and, together with Europe V-A, Europe V-B, Europe V-C, Europe V-D, Europe V-E, Europe V-F, Europe V-G and Europe V-1, the "Europe V Funds"). Apax Europe Managers owns all of the issued share capital of APAX WW Nominees Ltd. ("Apax WW Nominees"), a corporation organized under the laws of England. Apax WW Nominees is the registered owner of 1,653,938 shares of the common stock of Affymax, Inc. These shares are beneficially owned by the Apax Europe V Funds as follows: Europe V-A: 1,033,776 shares; Europe V-B: 185,942 shares; Europe V-C: 105,711 shares; Europe V-D: 139,320 shares; Europe V-E: 138,757 shares; Europe V-F: 24,409 shares; Europe V-G: 24,409 shares; Europe V-1: 788 shares; and Europe V-2: 826 shares. Therefore, Apax Managers Europe and Apax Europe V GP each has sole dispositive power with respect to, and is the beneficial owner of, an aggregate of 1,653,938 shares of the common stock of Affymax, Inc. nominally owned by Apax WW Nominees and beneficially owned by the Europe V Funds as indicated above.

(2) The address for the reporting owner is: 15 Portland Place, London, England W1B 1PT. Mr. John Megrue is the sole director of Apax Managers, Inc. ("AMI"). AMI is the general partner of Apax Excelsior VI Partners, L.P. (Excelsior VI Partners"), a Delaware limited partnership. Excelsior VI Partners is the general partner of each of Apax Excelsior VI, L.P. ("Excelsior VI"), a Delaware limited partnership, Apax Excelsior VI-A C.V. ("Excelsior VI-A"), a limited partnership organized under the laws of the Netherlands, Apax Excelsior VI-B C.V. ("Excelsior VI-B"), a limited partnership organized under the laws of the Netherlands, and Patricof Private Investment Club III, L.P. ("PPIC III"), a Delaware limited partnership. Therefore, each of AMI and Mr. Megrue has sole dispositive power with respect to, and is the beneficial owner of, an aggregate of 1,268,288 shares of the common stock of Affymax, Inc., including 1,085,556 shares of common stock owned by Excelsior VI; 87,440 shares of common stock owned by Excelsior VI-A; 58,251 shares of common stock owned by Excelsior VI-B; and 37,041 shares of common stock owned by PPIC III.

(3) The address for the reporting owner is: 383 Madison Avenue, New York, NY 10179. Consists of 165,931 shares held by Bear Stearns Health Innoventures, L.P. ("BSHI"); 136,502 shares held by Bear Stearns Health Innoventures Offshore, L.P. ("Offshore"); 77,119 shares held by BSHI Members, L.L.C. ("Members"); 107,635 shares held by Bear Stearns Health Innoventures Employee Fund, L.P. ("Employee Fund"); and 659,364 shares held by BX, L.P. ("BX"), (collectively, the "BSHI Funds"). The Bear Stearns Companies, Inc. ("BSCI") is the parent company of Bear Stearns Asset Management, Inc. ("BSAM"). BSAM is the sole manager of Bear Stearns Health Innoventures Management, LLC ("Management") and the sole manager of Members. Dr. Ryser and Elizabeth Czerepak are managing partners of Management. Management is the sole general partner of BSHI, the sole general partner of Offshore, the sole general partner of BX, and the sole general partner of Employee Fund, and Members co-invests with these funds. Ms. Czerepak, who is a director of the Company and Managing Partner of BSHI, is NASD registered (Series 7 and 63). Ms. Czerepak holds shared voting or investment power over the shares with other members or partners of BSHI. Ms. Czerepak disclaims beneficial ownership of the shares except to the extent of her proportionate pecuniary interest therein.

(4) The address for the reporting owner is: 82 Devonshire Street, Boston, MA 02109. Consists of 1,255,00 shares owned by Fidelity Growth Company Fund. Edward C. Johnson 3d and FMR LLC, through its control of Fidelity Growth Company Fund, each has sole power to dispose of the 1,446,996 shares owned by the funds.

(5) The address for the reporting owner is: 980 Great West Road, Brentford, Middlesex, TW8 9GS England. Consists of 553,236 shares of common stock held by Affymax Research Institute; 147,529 shares of common stock held by Affymax Technologies N.V.; 73,764 shares of common stock held by Glaxo Group Ltd.; and 73,764 shares of common stock held by SmithKline Beecham Corporation.

(6) The address for the reporting owner is: c/o MPM Capital L.P., The John Hancock Tower, 200 Clarendon St., 54th Floor, Boston, MA 02116. Consists of 989,697 shares held by MPM BioVentures II-QP, LP ("BVII QP"); 348,491 shares held by MPM BioVentures GmbH & Co. Parallel Beteiligungs KG ("BVKG"); 109,213 shares held by MPM BioVentures II, L.P. ("BV II"); 20,548 shares held by MPM Asset Management Investors 2001 LLC ("AM 2001"); and 132,520 shares held by MPM BioVentures Strategic Fund, L.P. ("MPM SF"). MPM Asset Management II, L.P. (AM II GP") and MPM Asset Management II LLC ("AM II LLC) are the direct and indirect general partners of BV II, BV II QP and BV KG. MPM Asset BioVentures III GP, L.P. ("AM III GP") and MPM BioVentures III LLC ("AM III LLC") are the direct and indirect general partners of MPM SF. Dr. Galakatos is a member of AM II LLC, AM III LLC and AM 2001. Dr. Galakatos shares voting or dispositive power over the securities with Ansbert Gadicke and Luke Evnin, and he disclaims beneficial ownership of the securities except to the extent of his pecuniary interest therein.

(7) The address for the reporting person is: c/o Credit Suisse, Uetlibergstrasse 231, P.O. Box 900, CH-8070 Zurich, Switzerland. Consists of 1,494,253 shares held by Sprout Capital IX, L.P.; 60,938 shares held by Sprout IX Plan Investors, L.P.; 4,159 shares held by Sprout Entrepreneurs Funds, L.P.; and 12,795 shares held by DJL Capital Corp. (collectively, the "Sprout Funds"). Ms. LaPorte is a managing director of New Leaf Venture Partners., L.L.C., which pursuant to a sub-management agreement with DLJ Capital Corporation provides investment management services on investments held by the Sprout Group, including Sprout Capital IX, L.P. DLJ Capital Corporation is the managing general partner of Sprout Capital IX, L.P. and the general partner of Sprout Entrepreneurs Fund, L.P. DLJ LBO Plans Management Corporation II is the general partner of Sprout IX Plan Investors, L.P. DLJ LBO Plans Management Corporation and DLJ Capital Corporation are both wholly owned subsidiaries of Credit Suisse (USA), Inc. Ms. LaPorte is also a member of the investment committee of the Sprout Group, a division of Credit Suisse First Boston Private Equity, Inc., which is a wholly owned subsidiary of Credit Suisse (USA), Inc. Ms. LaPorte holds shared voting or investment power over the shares held by each of the Sprout Funds. Ms. LaPorte disclaims beneficial ownership of all such shares except to the extent of her pecuniary interests therein. Excludes 49,106 shares held by Credit Suisse Securities USA L.L.C. Such shares are held for the benefit of Credit Suisse and decision making authority over those shares does not reside with the Sprout Group or its investment committee.

(8) Represents shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008. Of these shares, 4,637 shares may be purchased upon the early exercise of such stock options but remain subject to vesting.

(9) Includes 18,750 shares owned by Dr. Galakatos and 5,416 shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008.

(10) Represents shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008.

(11) Represents shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008. Of these shares, 2,917 shares may be purchased upon early exercise of such stock option but remain subject to further vesting.

(12) Represents shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008. Of these shares, 3,750 shares may be purchased upon early exercise of such stock option but remain subject to further vesting.

(13) Represents shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008. Of these shares, 84,345 shares may be purchased upon early exercise of such stock option but remain subject to further vesting.

(14) Includes 122,770 shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008. Of these shares, 49,338 shares may be purchased upon the early exercise of such stock options but remain subject to further vesting.

(15) Includes 76,823 shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008. Of these shares, 31,081 shares may be purchased upon the early exercise of such stock options but remain subject to further vesting.

(16) Includes 20,665 shares issuable upon the exercise of stock options exercisable within 60 days of February 15, 2008.

(17) Includes shares described in notes (6) through (16) above. Also includes an additional 72,809 shares issuable upon the exercise of stock options that are exercisable within 60 days of February 15, 2008. Of these shares, 10,043 shares may be purchased upon the early exercise of such stock options but remain subject to further vesting.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides certain information regarding our equity compensation plans in effect as of December 31, 2007:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding and exercisable options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,187,982	$9.52	876,405
Equity compensation plans not approved by security holders	—	—	—
Total	1,187,982	$9.52	876,405

On January 1st of each year, the number of authorized shares under (a) the 2006 Equity Incentive Plan automatically increases by a number of shares equal to the lesser of (i) 1,400,000 shares, or (ii) 4.5% of the outstanding shares on December 31st of the preceding calendar year; and (b) the 2006 Employee Stock Purchase Plan automatically increases by a number of shares equal to the lesser of (i) 175,000 shares, or (ii) 0.5% of the outstanding shares on December 31st of the preceding calendar year. On January 1, 2008, the number of shares of stock available for future issuance was automatically increased by 680,803 under our 2006 Equity Incentive Plan and by 75,644 under our 2006 Employee Stock Purchase Plan pursuant to the terms of those plans.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act") requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2007 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

HOUSEHOLDING OF PROXY MATERIALS

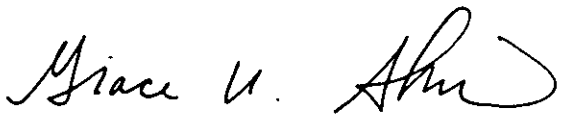
The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as "householding," potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are Affymax stockholders will be "householding" our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement and annual report, please notify your broker. Direct your written request to Affymax's Secretary, Grace U. Shin, at 4001 Miranda Avenue, Palo Alto, CA 94304 or contact her at (650) 812-8700. Stockholders who currently receive multiple copies of the proxy statement at their addresses and would like to request "householding" of their communications should contact their brokers.

OTHER MATTERS

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors



Grace U. Shin
Secretary

April 14, 2008

A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2007 is available without charge upon written request to: Investor Relations, Affymax, Inc., 4001 Miranda Avenue, Palo Alto, CA 94304.

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AFFYMAX

Affymax, Inc.
4001 Miranda Avenue
Palo Alto, California 94304

650 812 8700 TELEPHONE
650 424 0832 FACSIMILE
www.affymax.com WEB

Dear Stockholders:

As anticipated, 2007 was a year of solid progress focused on the late-stage development of our lead product, Hematide™. We are pleased to report that in the second half of the year, we initiated Phase 3 clinical trials of Hematide for the treatment of anemia in chronic renal failure patients on dialysis and not on dialysis.

Beginning our Phase 3 clinical program was an especially significant event given the ongoing regulatory scrutiny of the commercially available competitive products. Not surprisingly, these competitive products, which generated over $12 billion in worldwide sales in 2007, have a high profile with regulatory agencies, reimbursement authorities and law makers. Concluding our Phase 3 discussions with the FDA was an important and timely milestone that paved the way for the final stages of Hematide clinical development in renal indications and brings us closer to potential commercialization of our compound in the multi-billion dollar anemia market.

In addition to our Phase 3 clinical trials in chronic renal failure, Hematide is also being evaluated in a Phase 1 clinical trial to treat chemotherapy-induced anemia in prostate, breast and non-small cell lung cancer patients. This oncology trial was initiated by our global partner for Hematide, Takeda Pharmaceutical Company Limited, which under the terms of our agreement has assumed primary responsibility for development of the product in oncology indications.

Looking forward into 2008, our priorities are focused on the continued development of Hematide, specifically on completing enrollment in the Phase 3 clinical trials in chronic renal failure. This is a significant and important effort that, once completed, will set the timeline for potential New Drug Application submission in this indication in 2010. In addition, we will support Takeda's ongoing development efforts with Hematide in oncology and look forward to their completion of the Phase 1 clinical trial in the United States.

Because we are directing our resources to support the eventual commercialization of Hematide in the multi-billion dollar anemia market, we have slowed development in our earlier stage pipeline programs. As we achieve our late-stage development goals with Hematide, we will assess the potential for more aggressive diversification of our product portfolio. We look forward to keeping you apprised of our progress.

Sincerely,

Arlene M. Morris
President and Chief Executive Officer
March 12, 2008

Transfer Agent
Computershare
350 Indiana Street, Suite 800
Golden, CO 80401
T 303 262-0710
F 303 262-0700
www.computershare.com

Annual Meeting
May 22, 2008
9:00 a.m.
Affymax, Inc.
4001 Miranda Avenue
Palo Alto, CA 94304

Investor Relations
Copies of Affymax's annual report on Form 10-K fo
the year ended December 31, 2007 may be obtaine
free of charge by contacting:

Investor Relations
Affymax, Inc.
4001 Miranda Avenue
Palo Alto, CA 94304
T 650 812-8700
F 650 424-0832
www.affymax.com

Securities
The company's common stock is traded on Nasdaq.
The ticker symbol is AFFY.

Statements in this annual report regarding clinical trials, regulatory fil
the Takeda collaboration, product development and commercial poten
are forward-looking statements that involve risks and uncertainties. Ac
results could differ materially from the above forward-looking statem
as a result of certain factors, including the risks and uncertainty of
the timing and results of clinical trials and other development activiti
potential for once per month dosing and room temperature stability,
actions by regulatory authorities at any stage of the development pro
additional financing activities, market acceptance of any of the produ
industry and competitive conditions, intellectual property rights and
disputes, and other factors discussed in the company's most recent fil
with the Securities and Exchange Commission. Affymax does not
undertake any obligation to update forward-looking statements.

END

AFFYMAX®