RISK FACTORS

You should carefully consider the following information about these risks, together with the other information included in this Annual Report on Form 20-F. Please also see the discussion regarding forward looking statements at page 1.

Risks Related to Our Company

We are an early-stage biopharmaceutical company without commercial products, and there is no assurance that we will successfully develop and commercialize potential products.

You must evaluate us in light of the uncertainties and complexities inherent in an early-stage biopharmaceutical company. All of our product candidates are in the early-stages of development. EVT 201 has undergone two Phase II clinical trials. EVT 101 has completed Phase Ib clinical trials. EVT 302 was safe and well tolerated in Phase I trials but failed to show proof-of-concept in smoking cessation in a Phase II clinical trial completed in April 2009. In early 2009 we announced that we would stop further internal investment in EVT 201 and are currently re-assessing the future of EVT 302. During the first quarter of 2009 our collaborative partner on the VR1 program, Pfizer, stopped development of the clinical candidate that they had initiated Phase I testing on in 2008. While the collaboration continues, we are uncertain if a commercial product will arise out of this collaboration. The commercialization of those products will not occur, if at all, for at least the next several years. Our future success is dependent upon, among other factors, our ability to finance and develop viable product candidates, successfully complete clinical trials and obtain regulatory approval for those product candidates. Most of our early-stage drug discovery programs are focused on central nervous system, or CNS, disease targets and will require extensive additional research and development prior to the commercial introduction of any product candidates. There can be no assurance that any of our research and development and clinical trial efforts, or those of our strategic partners or licensees, will result in viable new products. For example, in September 2006, based on the results of a safety and tolerability study conducted during Phase I clinical trials for EVT 301, we announced that we were discontinuing development of EVT 301 as a monoamine oxidase B, or MAO-B, inhibitor for the treatment of Alzheimer's disease.

We have expended significant time, money and effort developing EVT 201, EVT 101 and EVT 302, which are our most advanced product candidates to date. Before we or our potential partners can market and sell EVT 201, EVT 101 and EVT 302, we will need to obtain the necessary approvals from the United States Food and Drug Administration, or FDA, the European Medicines Agency, or EMEA, and similar regulatory agencies elsewhere. Even if their further development is successful, it will take several more years before we or our licensees can file for regulatory approval of these product candidates. Therefore, if the necessary regulatory approvals for EVT 201, EVT 101 or EVT 302 are not received from the FDA or EMEA, regulatory approval is later withdrawn or the approvals are significantly delayed, it is less likely that we will achieve profitability and our business prospects will be seriously limited. As a result, you could lose all or part of your investment.

We have historically incurred significant losses and might not achieve or maintain operating profitability.

Since our formation, we have incurred significant net losses and, as of December 31, 2008, had an accumulated deficit of €573.4 million. Our net losses from continuing operations were €29.0 million in 2006, €48.1 million in 2007, and €78.3 million in 2008, with all figures determined in accordance with IFRS. Our historical losses have resulted mainly from amortization of intangible assets and goodwill from acquisitions as well as from costs incurred in our research and development programs and from our sales, general and administrative expenses. We expect to continue to incur significant expenses for at least the next several years as we continue our research activities and conduct development of, and seek regulatory approvals for, current or additional indications for EVT 101 and $P2X_7$ and for other drug candidates. Whether we are able to achieve operating profitability in the future will depend upon our ability to generate revenues that exceed our expenses. Changes in market conditions, including the failure or approval of competing products, may require us to incur more expenses or change the timing of expenses such that we may incur unexpected losses. In addition, we have

historically experienced considerable quarter-to-quarter variation in our results of operations and may not generate sufficient revenues from product sales in the future to achieve or maintain profitable operations. Further, we may not be able to sustain or increase profitability on a quarterly or an annual basis. If we are unable to achieve and maintain profitability, the market value of our ordinary shares and ADSs will likely decline and you could lose all or a part of your investment.

Clinical trials have in the past and may in the future fail to demonstrate the safety and efficacy of our product candidates, including EVT 101, EVT 302, our P2X$_7$ Antagonist candidate and our VR1 Antagonist candidate, which could prevent or significantly delay their regulatory approval and may adversely affect our business and stock price.

Any failure or substantial delay in completing clinical trials for our product candidates, including EVT 101, EVT 302, our P2X$_7$ Antagonist candidate and our VR1 Antagonist candidate, have in the past and may in the future severely harm our business. Before obtaining regulatory approval for the sale of any of our potential products or the potential products of our current and future strategic partners and licensees, we and our strategic partners or licensees must submit these product candidates to extensive preclinical and clinical testing to demonstrate their safety and efficacy in humans. The success of this preclinical and clinical testing is critical to achieving our product development goals. If our product development efforts are unsuccessful, we will not obtain regulatory approval for them, we will not generate sales from them, and our business and results of operations would be adversely affected.

Clinical trials are expensive, time-consuming and typically take years to complete. In connection with clinical trials, we face the risks that:

- a product candidate may not prove to be efficacious;
- we may discover that a product candidate may cause harmful side effects;
- patients may die or suffer other adverse medical effects for reasons that may not be related to the product candidate being tested;
- the results may not confirm the positive results of earlier trials; and
- the results may not meet the level of statistical significance required by the FDA, the EMEA or other relevant regulatory agencies.

The results in early phases of clinical testing are based upon a limited numbers of patients and a limited follow-up period and success in early phase trials may not be indicative of results in a large number of patients or long-term efficacy. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials even after achieving promising results in earlier development activities, including previous late-stage clinical trials. Failure by us to demonstrate the safety and effectiveness of our product candidates in larger patient populations could prevent or significantly delay their regulatory approval and may adversely affect our business and the price of our ordinary shares and ADSs.

We depend on intellectual property licensed from third parties including Roche, and termination of any of these licenses could result in the loss of significant rights, which would harm our business.

We hold licenses granted by F. Hoffmann-La Roche Ltd., or Roche, for EVT 201, the EVT 100 compound family and EVT 302, and by other parties related to certain of our preclinical research projects. Any termination of these licenses could result in the loss of significant rights and could harm our ability to commercialize our drug candidates. Our ownership of patents relating to some or all of our products will not reduce our reliance on these and other third party patents. Our rights relating to EVT 201, the EVT 100 compound family and EVT 302 are subject to the terms of the license agreements entered into with Roche. We must therefore rely on Roche to enforce its rights and obligations and if Roche is unable to enforce such rights and obligations, our development and commercialization of EVT 201, the EVT 100 compound family and EVT 302 could be delayed or prevented.

When we license intellectual property from third parties, including Roche, those parties generally retain most or all of the obligations to maintain and extend, as well as the rights to assert, prosecute and defend, that intellectual property. We generally have no rights to require our licensors, including Roche, to apply for new patents, except to the extent that we actually assist in the creation or development of patentable intellectual property. With respect to intellectual property that we license, we are generally also subject to all of the same risks with respect to its protection as we are for intellectual property that we own, which are described below under “Risk Factors—Risks Related to Our Industry.” We are dependent on patents and proprietary technology, both our own and licensed from others. If we or our licensors fail to adequately protect this intellectual property or if we do not have exclusivity for the marketing of our products, our ability to commercialize products could suffer.

We depend on the efforts of our strategic collaborative partners, particularly Boehringer Ingelheim, Roche and CHDI, to generate steady revenues for our business.

We are a party to contract research and proprietary collaboration projects with strategic partners that include, among others, Boehringer Ingelheim, Roche and CHDI. These partnerships and collaborations involve the joint discovery and development of product candidates targeting CNS-related diseases as well as partnerships granting our collaborators access to our integrated discovery offerings. In exchange for access to our integrated discovery offerings, we receive contractual service fees and ongoing research payments and, in certain circumstances, milestone and royalty payments related to research milestones achieved. The agreements provide for indefinite or medium term joint research periods which are extendable by mutual consent. Our potential rights to receive milestone and royalty payments from our respective partner may survive the joint research terms. The dates of these potential payments depend on the timing of achievement of pre-agreed research and commercialization milestones. We will only be entitled to these potential payments until the expiration of underlying valid patent claims.

We cannot control the time or resources that these strategic partners devote to these collaborations, nor can we control these strategic partners’ business decisions. In addition, our collaborators may not perform their obligations as expected. Changes in a collaborator’s business strategy or business combinations involving a collaborator may adversely affect that party’s willingness or ability to successfully meet its obligations. Disagreements between us and our collaborators may lead to delays in or termination of the research, development or commercialization of product candidates or result in time-consuming and expensive negotiations, litigation or arbitration. In addition, our strategic partners may benefit from customary termination rights (e.g. in a case of a breach of a material obligation by us after expiration of customary cure periods) allowing them to claim additional rights in the affected research projects. Furthermore, the right to terminate certain research projects may rest within the sole discretion of the partner, which in return may forgo certain future rights in the affected research projects. The failure of our strategic partners to successfully complete their obligations in a timely manner or the termination or breach of agreements by these parties could materially harm our business, financial condition and results of operations.

Our key obligations under the collaboration with Boehringer Ingelheim are to jointly explore biological targets and to develop pharmaceutically active compounds, following the decisions and the requirements of a research steering committee established by Boehringer Ingelheim and us. Under the Roche collaboration, our obligation is to provide services for the discovery and development of pharmaceutical substances, effective against potential drug targets. We do perform these services in accordance with specific research plans agreed by a joint research steering committee. The work comprises, among other things, assay development, screening of substances and chemical optimization of substances. In the CHDI collaboration, our obligations to provide services are specified by a joint research steering committee. These services are in the field of assay development, reagent development, compound screening, compound profiling, structural biology and chemical synthesis of compounds. We have been and currently are in full compliance with our obligations under the collaboration agreements.

We may not achieve the anticipated benefits of our acquisition of Renovis, Inc. in 2008, or any future acquisitions by us, which may adversely affect our business and the price of our ADSs and our ordinary shares.

The acquisition of Renovis in 2008 has presented challenges to our management, including the integration of Renovis's operations and scientific programs. On May 5, 2009, we announced that we were implementing a re-engineering of our drug discovery and development operations. As a consequence of this reorganization all our proprietary programs including those which were worked on at Renovis will be managed through our European operations and will result in the winding down of our US operations at Renovis in South San Francisco, California. The transfer of such US operations may be difficult and scientific knowledge on the early stage programs Renovis currently is working on may result in losses of know how.

In the future, we may acquire additional technologies, products or businesses to expand our existing and planned business. Acquisitions, including our acquisition of Renovis, expose us to the addition of new operating and other risks including the risks associated with the:

- assimilation of new technologies, operations, sites and personnel;
- application for and achievement of regulatory approvals or other clearances;
- diversion of resources from our existing business and technologies;
- generation of revenues to offset associated acquisition costs;
- implementation and maintenance of uniform standards and effective controls and procedures;
- maintenance of relationships with employees and customers and integration of new management personnel;
- issuance of dilutive equity securities;
- incurrence or assumption of debt;
- amortization and impairment of acquired intangible assets or potential businesses; and
- exposure to liabilities of and claims against acquired entities.

Our failure to address the above risks successfully in the future may prevent us from achieving the anticipated benefits from any acquisition in a reasonable time frame, or at all.

We have no experience selling, marketing or distributing products and no internal capability to do so.

If we receive regulatory approval to commence commercial sales of any of our product candidates for which we have retained marketing rights, we will have to establish a sales and marketing organization with appropriate technical expertise and supporting distribution capability. At present, we have no sales or marketing personnel for any of our product candidates and as such we intend to partner and out-license our product candidates to pharmaceutical companies to undertake such activities. Factors that may inhibit our efforts to commercialize our products without strategic partners or licensees 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 against companies with broader product lines; and
- unforeseen costs associated with creating an independent sales and marketing organization.

We may not be able to successfully establish sales and distribution capabilities either on our own or in collaboration with third parties or gain market acceptance for our products. To the extent we enter co-promotion or other licensing arrangements, any revenues we receive will depend on the efforts of third parties, and we may not succeed in achieving any such partnering or out-licensing arrangement on a satisfactory basis, if at all.

Even if our product candidates are approved and commercialized, competitive products may impede market acceptance of our products.

Hospitals, physicians or patients may conclude that our potential products are less safe or effective or otherwise less attractive than existing drugs. Even if approved and commercialized, any future product candidates may fail to achieve market acceptance with hospitals, physicians or patients. If our products do not receive market acceptance for any reason, our revenue potential could be diminished, which would materially adversely affect our business, financial condition and results of operations. Further, our competitors may develop new products that could be more effective or less costly, or that may seem more cost-effective, than our products.

Most of our competitors have substantially greater capital resources, research and development staffs, facilities and experience in conducting clinical trials and obtaining regulatory approvals, as well as in manufacturing and marketing pharmaceutical products. As a result, they may achieve product commercialization or patent protection earlier than we can, if at all. Hospitals, physicians, patients or the medical community in general may not accept and use any products that we may develop.

We may elect to further expand our research, clinical development, and sales and marketing capabilities and, as a result, may encounter difficulties in managing our growth, which could disrupt our operations.

We intend to build a sustainable pipeline of drug candidates. As a result, our operations may expand through mergers and acquisitions and in-licensing. In addition, as our research and development programs continue to advance, we may decide to proceed with the building of a commercial infrastructure for our product candidates and may elect to grow the number of our employees and the scope of our operations. To manage our potential future growth, we would need to continue to improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Because we are a relatively small company, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The possible physical expansion of our operations could increase our costs significantly and may divert our management and business development resources. 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 potential future growth effectively.

Global economic conditions could adversely affect our business, results of operations and financial condition.

Our results of operations could be materially affected by general conditions in the global economy and in the global financial markets. The global financial crisis has caused extreme volatility and disruptions in the capital and credit markets. Therefore, access to financing has been adversely affected for many borrowers. A severe or prolonged economic downturn could result in a variety of risks to our business, including:

- reductions or delays in planned improvements to the healthcare systems and research funding or cost-containment efforts by governments and private organizations that could lead to a reduction in future revenues, operating income and cash from operations;
- severely limited access to financing over an extended period of time, which may limit our ability to fund our growth strategy, could result in a need to delay capital expenditures, acquisitions or research and development projects;
- further failures of currently solvent financial institutions, which may cause losses from our short-term cash investments or our hedging transactions due to a counterparty’s inability to fulfill its payment obligations;

- inability to refinance existing debt at competitive rates, reasonable terms or sufficient amounts; and
- increased volatility or adverse movements in foreign currency exchange rates.

If we cannot raise additional capital on acceptable terms, we may be unable to complete clinical trials, obtain regulatory approvals or commercialize our product candidates.

We believe that existing cash reserves, and the cash to be derived from our operations, will fund our planned activities for more than the next 12 months. However, we will require substantial future capital in order to continue to conduct the research and development, clinical and regulatory activities necessary to bring our product candidates to market and may seek additional funding anytime in the future. During the year ended December 31, 2008, we used net cash in operating activities of €41.3 million and had capital expenditures for property, plant and equipment of €3.5 million. Our future capital requirements depend on many factors, including:

- the progress of preclinical development and laboratory testing and clinical trials;
- the time and costs involved in obtaining regulatory approvals;
- delays that may be caused by evolving requirements of regulatory agencies;
- the number of product candidates we pursue and the number of preclinical and clinical programs conducted by us;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;
- our ability to establish, enforce and maintain selected strategic alliances and activities required for product commercialization;
- the acquisition of technologies, products or other companies and other business opportunities that require financial commitments; and
- our revenues, if any, from the partnering and successful development and commercialization of our products.

We intend to seek additional funding through strategic collaborations. We face intense competition from many other companies in the pharmaceutical and biotechnology industry for corporate collaborations, as well as for establishing relationships with academic and research institutions and for obtaining licenses to proprietary technology. If we are unable to attract and retain corporate partners to develop, introduce and market our products, our business may be materially and adversely affected. Our strategy and any reliance on corporate partners, if we are able to establish such collaborative relationships, are subject to additional risks. Our collaborators may not devote sufficient resources to the development, introduction and marketing of our products or may not pursue further development and commercialization of products resulting from collaborations with us. If a corporate partner elects to terminate its relationship with us, our ability to develop, introduce and market our products may be significantly impaired and we may be forced to discontinue the product altogether. We may not be able to negotiate alternative corporate partnership agreements on acceptable terms, if at all. The failure of any collaboration efforts could have a material adverse effect on our ability to develop, introduce and market our products and, consequently, could have a material adverse effect on our business, results of operations and financial condition.

Additional financings may significantly dilute existing shareholders' ownership percentage in us or such funding may not be available on acceptable terms, if at all.

We may seek additional funding through public or private sales of our securities, entering into credit arrangements or licensing all or a portion of our technology. Any such funding activity may significantly dilute existing shareholders' ownership percentage or may limit our rights to our technology. We cannot be certain that any such funding will be available on acceptable terms, if at all.

Currency fluctuations may expose us to increased costs or revenue decreases.

Our business is affected by fluctuations in foreign exchange rates between the U.S. Dollar, UK Sterling and the Euro. A significant portion of our revenues are denominated in U.S. Dollars but are reported in Euro, while the majority of our expenses are denominated in Euro and UK Sterling, although U.S. Dollar expenses have increased substantially following the merger with Renovis. Therefore currency fluctuations could cause our revenues to decline or our costs to increase. Our cash and investments are denominated in Euro, U.S. Dollars and UK Sterling.

Risks Related to an Investment in Our ADSs and Ordinary Shares

The price of our ordinary shares has fluctuated significantly on the Frankfurt Stock Exchange and may continue to do so.

Our ordinary share price has fluctuated between €4.88 and €0.54 between February 1, 2005 and May 29, 2009. The ADSs have fluctuated from $4.89 to $1.18 during the period that the ADSs have traded from May 6, 2008 through May 29, 2009.

Factors that could cause volatility in the market price of our ordinary shares and ADSs include:

- the progress of preclinical development, laboratory testing and clinical trials of our product candidates;
- the results from our clinical trial programs and any future trials we may conduct;
- developments in the clinical trials of potentially similar competitive products;
- EMEA, FDA, or international regulatory actions;
- failure of any of our product candidates, if approved, to achieve commercial success;
- announcements of the introduction of new products by us or our competitors;
- market conditions in the pharmaceutical and biotechnology sectors;
- developments concerning intellectual property rights;
- litigation or public concern about the safety of our potential products;
- comments by securities analysts;
- actual and anticipated fluctuations in our quarterly operating results;
- deviations in our operating results from the estimates of securities analysts;
- rumors relating to us or our competitors;
- additions or departures of key personnel;
- third-party reimbursement policies;
- developments concerning current or future collaborations, strategic alliances or similar relationships; and
- reviews of the long-term values of our assets, which could lead to impairment charges that could reduce our earnings.

These and other external factors may cause the market price and demand for our ADSs or ordinary shares to fluctuate substantially, which may limit or prevent investors from readily buying and selling the securities and may otherwise negatively affect the liquidity of, our ADSs or ordinary shares. In addition, in the past, when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our shareholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management.

A decline in the value of the Euro could reduce the value of your investment in our ADSs.

Fluctuations in the exchange rate between the U.S. Dollar and the Euro will affect the U.S. Dollar equivalent of the Euro price per ADS. If the value of the Euro relative to the U.S. Dollar declines, the market price of our ADSs is likely to be adversely affected. The value of the Euro relative to the U.S. Dollar has increased by 54.1% from the introduction of the Euro on January 1, 2002 through December 31, 2008, with the Euro decreasing 5.56% against the Dollar during 2008 when comparing the beginning of the year exchange rates with the end of the year exchange rates.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for our ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in rights offerings and may experience dilution in their holdings as a result.

If the depositary is unable to sell the rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

You may not be able to exercise your right to vote the ordinary shares underlying your Evotec ADSs.

Holders of our ADSs may exercise voting rights with respect to the ordinary shares represented by our ADSs only in accordance with the provisions of the deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our ordinary shares, the depositary will, as soon as practicable thereafter, fix a record date for the determination of ADS holders who shall be entitled to give instructions for the exercise of voting rights.

As promptly as practicable after the depositary receives (i) notice of any meeting or solicitation of consents or proxies of holders of shares and (ii) the statement of the custodian which will act as a proxy bank in accordance with Sections 128 and 135 of the German Stock Corporation Act (*Aktiengesetz*) setting forth its recommendations with regard to voting of the shares pursuant to Section 128 (2) of the German Stock Corporation Act as to any matter concerning which the notice from us indicates that a vote is to be taken by holders of shares, together with an English translation thereof, the depositary shall, subject to applicable law and our articles of association, mail to registered holders of ADSs a notice (a) containing such information as is contained in such notice and any solicitation materials, (b) stating that each registered holder of ADSs on the record date set by the depositary therefore will be entitled to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the whole number of shares underlying such registered holder’s ADSs, (c) containing the recommendation of the custodian, and (d) specifying how and when such instructions may be given.

You may instruct the depositary of your Evotec ADSs to vote the ordinary shares underlying your ADSs but only if we ask the depositary to ask for your instructions. Otherwise, you will not be able to exercise your right to vote, unless you withdraw our ordinary shares underlying our ADSs that you hold. However, you may not know about the meeting far enough in advance to withdraw those ordinary shares. If we ask for your instructions, the depositary, upon timely notice from us, will notify you of the upcoming vote and arrange to deliver our voting materials to you. There can be no guarantee that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ordinary shares. In addition, the depositary and its agents are not

responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. As a result, you may not be able to exercise your right to vote, and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

Under the deposit agreement for our ADSs, we may choose to appoint a proxy bank in accordance with the German Stock Corporation Act. In this event, the depositary will receive a proxy which will be given to the proxy bank to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote in a timely fashion and in the manner specified by the depositary. The effect of this proxy is that you cannot prevent the ordinary shares underlying your ADSs from being voted, and it may make it more difficult for shareholders to influence our management, which could adversely affect your interests. Holders of our ordinary shares are not subject to this proxy.

You may not receive distributions on our ordinary shares represented by our ADSs or any value for them if it is illegal or impractical to make them available to holders of ADSs.

The depositary of our ADSs has agreed to pay to you distributions with respect to cash or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of the ordinary shares your Evotec ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of our ADSs. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. As a result, you may not receive the distributions made on our ordinary shares or any value from them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your Evotec ADSs.

Your Evotec ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may refuse to deliver, transfer or register transfers of your ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or government or governmental body, or under any provision of the deposit agreement, or for any other reason.

The rights of shareholders in German companies differ in material respects from the rights of shareholders of corporations incorporated in the United States, and as a result our public shareholders may have greater difficulty protecting their interests than would shareholders of a corporation incorporated in the United States.

We are incorporated in Germany, and the rights of our shareholders are governed by German law, which differs in many respects from the laws governing corporations incorporated in the United States. For example, individual shareholders in German companies do not have standing to initiate a shareholder derivative action, either in Germany or elsewhere, including the United States, unless they meet thresholds set forth under German corporate law. As a result, our public shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

It may be difficult for you to bring any action or enforce any judgment obtained in the United States against us or members of our Supervisory or Management Boards, which may limit the remedies otherwise available to you.

We are incorporated in Germany and the majority of our assets are located outside the United States. In addition, most of the members of our Supervisory Board, Management Board and other senior management are nationals and residents of Germany or the United Kingdom. Most or all of the assets of these individuals are

located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States if you believe your rights have been infringed under the securities laws or otherwise. In addition, a German or United Kingdom court may prevent you from enforcing a judgment of a U.S. court against us or these individuals based on the securities laws of the United States or any state thereof. A German or United Kingdom court may not allow you to bring an action in their respective jurisdictions against us or these individuals based on the securities laws of the United States or any state thereof.

We have no present intention to pay dividends on our ordinary shares in the foreseeable future and, consequently, your only opportunity to achieve a return on your investment during that time is if the price of our ADSs appreciates.

We have no present intention to pay dividends on our ordinary shares in the foreseeable future. Any determination by our Supervisory and Management Boards to pay dividends will depend on many factors, including our financial condition, results of operations, legal requirements and other factors. Accordingly, if the price of our ADSs falls in the foreseeable future and you sell your ADSs, you will lose money on your investment, without the likelihood that this loss will be offset in part or at all by cash dividends.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs.

If we were treated as a “passive foreign investment company,” or PFIC, for any taxable year during which a U.S. person held an ADS, certain adverse U.S. federal income tax consequences could apply to such U.S. person. See “Material U.S. Federal Income Tax Consequences Relating to the Ownership and Disposition of Evotec ADSs” under Item 10. “Additional Information.”

Risks Related to Our Industry

Drug discovery and development is subject to a high degree of failure.

Although we devote significant resources to the discovery of new therapeutic drugs and employ advanced technologies in our efforts to identify promising drug candidates to advance into preclinical studies, the risk that all or any one of our early-stage product candidates will fail is high. According to pharmaceutical industry statistics published in 2001 by the Pharmaceutical Research and Manufacturers of America, only one in 1,000 early-stage drug discovery compounds advances to clinical trials, and only one in five compounds that enters clinical trials receives FDA approval for marketing as a prescription drug. Moreover, the results from preclinical studies and early clinical trials may not accurately predict the results obtained in later stage clinical trials required for regulatory approval. We cannot assure you that our early-stage product candidates will prove in clinical testing to be effective and safe for use in humans. If our early-stage product candidates do not prove to be effective or safe in such tests, regulatory approval for such products would be delayed or may not be obtainable.

Competition in the biotechnology and pharmaceutical industries is intense, and if we fail to compete effectively our financial results will suffer.

Our business is characterized by extensive research efforts, rapid developments and intense competition. Our competitors may have or may develop superior technologies or approaches to the development of competing products, which may provide them with competitive advantages. Our potential products may not compete successfully. We believe that successful competition depends on product efficacy, safety, reliability, availability, timing, scope of regulatory approval, acceptance and price, among other things. Important factors to our success also include speed in developing product candidates, completing laboratory testing, clinical development and obtaining regulatory approvals and manufacturing and selling commercial quantities of approved products to the market.

We expect competition to increase as technological advances are made and commercial applications broaden. In commercializing our initial product candidates and any additional product candidates, we will face substantial competition from pharmaceutical, biotechnology and other companies, universities and research institutions.

Many of our competitors have substantially greater capital resources, research and development staff, facilities and experience in conducting clinical trials and obtaining regulatory approvals, as well as in manufacturing and marketing pharmaceutical products. Our competitors may achieve product commercialization or patent protection earlier than we achieve commercialization or patent protection, if we do so at all. Furthermore, we believe that some of our competitors have used, and may continue to use, litigation to gain a competitive advantage.

We are dependent on patents and proprietary technology, both our own and licensed from others. If we or our licensors fail to adequately protect this intellectual property or if we do not have exclusivity for the marketing of our products, our ability to develop and commercialize products could suffer.

As of December, 31, 2008, we had more than 130 families of intellectual property rights under our full control, with each such family protecting an invention in one or more countries by one or more patent applications, patents and/or utility models. A utility model is an intellectual property right similar to that of a patent, and it is available in a number of countries through domestic legislation and typically has a shorter term and less stringent patentability requirements than a patent. In particular, few patent applications have been filed that relate to three compound series and their uses in a variety of disorders, such as metabolic diseases as well as neurological and neurodegenerative diseases.

In addition, we are party to licensing agreements that grant us rights under third-party patents or patent families. We have exclusively in-licensed intellectual property from Roche with respect to EVT 201 in the field of CNS indications, the EVT 100 compound family for prevention, diagnosis and/or treatment of human diseases and EVT 302 for treatment of any indication in humans and are party to further exclusive in-licensing agreements with Garching Innovation GmbH (now renamed Max-Planck-Innovation GmbH) and other third parties.

Our success depends in part on our ability, and the ability of our licensors, to obtain patent protection for product candidates, products, technologies and processes, to preserve trade secrets, to defend patents against third parties seeking to invalidate such patents, and to enforce rights against infringing parties, in the United States, Europe and elsewhere. The validity and breadth of claims in medical or pharmaceutical technology and biotechnology or life science patents involve complex legal and factual questions and, therefore, may be highly uncertain. For example, the value of our intellectual property rights, both our own and those licensed from others, depends on whether:

- confidentiality agreements entered into with employees, contractors, consultants, advisors, collaborators and others effectively prevent disclosure of our and our licensors' confidential information or provide meaningful protection of such confidential information;
- the inventors of our patents or of those we co-own or license were the first to make the inventions, or the first to file patent applications covering the intellectual property important for our business;
- the applicants of our or our licensors' patents obtained the appropriate rights, including that of ownership, from the inventors of such patents;
- we will develop, co-develop, acquire or license additional product candidates, technologies or processes that are patentable;
- the scope of any patent protection we, the co-owners of our intellectual property rights or our licensors receive will exclude competitors or provide us with competitive advantages;

- any of the patents that have been or may be issued to us, the co-owners of our intellectual property rights or our licensors will provide protection for commercially viable products;
- any of the patents that have been or may be issued to us, the co-owners of our intellectual property rights or our licensors will be held valid if challenged;
- our licensors effectively prosecute, maintain, defend, extend and enforce the patents and patent applications we have licensed;
- patent authorities will grant patents to our competitors or others based on applications they have filed or may file that restrict our business;
- we will be able to detect infringement of any patent we, the co-owners of our intellectual property rights or our licensors hold, or, if detected, will be able to enforce or cause our licensors to enforce in an effective manner any such patent against an infringing party;
- others claim rights in, or ownership of, the patents and other proprietary rights that we hold or license;
- any patent that we, the co-owners of our intellectual property rights or our licensors receive will be eligible under, and benefit from, any laws or regulations governing patent term extension;
- the patents of others have an adverse effect on our business; or
- others have developed or will develop similar product candidates, products, technologies or processes, duplicate any of those, or design around any patents that have been or may be issued to us, the co-owners of our intellectual property rights or our licensors, particularly in relation to EVT 302, the EVT 100 compound family, P2X, and VR1 Antagonists and EVT 201.

We try to protect our proprietary position by generally filing national and foreign patent applications related to those of our proprietary technologies, inventions and improvements that are important to our business, including those related to the development of our product candidates. Our ability to obtain patents is, however, highly uncertain because, to date, some legal principles remain unresolved and there has not been a consistent policy regarding the breadth or interpretation of claims allowed in patents in the United States, European countries and elsewhere. Moreover, the specific content of patents and patent applications that is necessary to support and interpret patent claims is highly uncertain due to the complex nature of the relevant legal, scientific and factual issues. The policies governing biotechnology patents throughout various countries, including Germany, are even more uncertain. Changes in either patent laws or in interpretations of patent laws in European countries, the United States and elsewhere may diminish the value of our and our licensors' intellectual property or narrow the scope of our and our licensors' patent protection.

Many of our and our collaborators' research and development employees and/or consultants work in Germany or other European countries and are subject to German employment law or comparable rules in other European jurisdictions. Ideas, developments, discoveries and inventions made by such employees and consultants are subject to the provisions of the German Employees Inventions Act (*Gesetz über Arbeitnehmererfindungen*) or similar European legislation, which regulates the ownership of, and compensation for, inventions made by employees. For such inventions, we face the risk that disputes can occur between employer and employee, ex-employee, or consultants pertaining to alleged non-adherence to the provisions of this act. Even if we, the co-owners of our intellectual property rights or licensors prevailed in any such dispute, such action could result in substantial costs and be a distraction to management. If we fail in such dispute, in addition to paying substantial monetary damages, we may lose valuable intellectual property rights.

Patents, if issued, may be challenged, invalidated or circumvented. U.S. patents and patent applications may also be subject to interference proceedings, and U.S. patents may be subject to re-examination proceedings. In other countries, patents may be subject to opposition or comparable proceedings. Such proceedings could result in either loss of the patent or denial of the patent application or loss or reduction in the scope of one or more of the claims of the patent or patent application. In addition, such interference, re-examination and opposition

proceedings may be costly and time-consuming and, even if we were to prevail, would distract our management. Moreover, the U.S. Federal Food, Drug, and Cosmetic Act and related regulations provide incentives to manufacturers to challenge patent validity or create modified, non-infringing versions of a drug in order to facilitate the approval of abbreviated new drug applications for generic versions of drugs that have the same active ingredients and the same therapeutic effect but are offered at a lower price. Although we and, to our knowledge, our licensors, are not currently faced with any of these types of legal actions with respect to our product candidates, the risk of these legal actions increases as our product candidates progress toward commercialization and after our product candidates are ultimately approved and commercialized.

Any patents or patent applications that we own, co-own or license from others may not provide any protection against competitors. Our pending patent applications, those we may file in the future, or those we have licensed or may license from third parties, may not result in patents being issued. If issued, the patents may not provide us with proprietary protection or competitive advantages against competitors with similar technology, products or processes. Furthermore, others may independently develop similar technologies, products or processes or duplicate any of those that we have developed.

We and our licensors depend on third parties, such as patent-annuity payment companies and patent law firms, to pay the annuity, renewal and other fees as well as to take additional measures required to maintain our respective patents and patent applications. Non-payment or delay in the payment of these fees or non-adherence to take such additional measures is likely to result in irrevocable loss of patents or patent rights important to our business.

We, the co-owners of our intellectual property rights or our licensors may face difficulties in protecting or enforcing intellectual property in countries outside the United States and the member states of the European Patent Convention, which may diminish the value of our intellectual property in those countries.

The laws of some foreign jurisdictions do not protect intellectual property rights to the same extent as in the United States and countries in the European Patent Convention, and many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. If we, the co-owners of our intellectual property rights or our licensors encounter such difficulties in protecting, or are otherwise precluded from effectively protecting, in foreign jurisdictions the intellectual property rights important for our business, the value of these rights may be diminished and we may face additional competition from others in these jurisdictions.

Many countries, including, but not limited to, certain European countries, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties (if, for example, the patent owner has failed to “work” the invention in that country, or the third party has patented improvements). Compulsory licensing of life-saving drugs is also becoming increasingly popular, especially in developing countries. In addition, many countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may have limited remedies, which could materially diminish the value of the patent. Moreover, the legal systems of certain countries do not favor the efficient enforcement of patent and other intellectual property rights which makes it difficult to stop infringement and diminishes the value of such rights.

Claims that we infringe a third party’s intellectual property may give rise to burdensome litigation, result in potential liability for damages or stop our development and commercialization efforts.

Not infringing on the intellectual property rights of others is important to our, our strategic partners’ and our licensees’ success. Third parties may assert patent or other intellectual property infringement claims against us, our strategic partners or our licensees with respect to technologies used in our, our strategic partners’ or our licensees’ businesses. Numerous patent applications are currently pending and we expect that further patents may be filed in the future for technologies generally related to our technologies, including many patent applications

that at least initially remain confidential after filing. United States, European and other patents in other jurisdictions have been or may be issued to third parties in the same fields as some of our product candidates. These third-party intellectual property rights could subject us to infringement actions. A risk inherent in any patent search to determine potential rights of third parties is that search results may be inconclusive. For example, the searches will bring to attention only those patents and patent applications indexed by search terms and classification marks used in the searches. Furthermore, searches will not reveal patent applications pending, which are not yet published or have not yet been incorporated into the search database at the date of search. Assessing the validity of claims of third party patents can be uncertain due to the complex nature of the relevant legal, scientific and factual issues. Furthermore, the success of potentially challenging the validity of third party patents is not certain. Although we have not been subject to any infringement actions to date, due to these factors and the inherent uncertainty in conducting patent searches, we may violate third-party patent rights that we have not yet identified as being relevant or at all.

The owners or licensees of these and other patents may file one or more infringement actions against us. Patent litigation can involve complex factual and legal questions and its outcome is uncertain. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations. Any claim relating to infringement of patents that is successfully asserted against us may require us to pay substantial damages.

Furthermore, as a result of a patent infringement suit brought against us or our strategic partners or licensees, we or our strategic partners or our licensees may be forced to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party's intellectual property unless that party grants us or our strategic partners or licensees rights to use its intellectual property. In such cases, we may be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if our strategic partners, licensees or we were able to obtain rights to the third party's intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to discontinue development of a product candidate or cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

Rapid technological change could make our products and collaborative projects obsolete.

Biopharmaceutical technologies have undergone rapid and significant technological change and we expect that they will continue to do so. Any compounds, products or processes that we or our strategic partners or licensees develop may become obsolete or uneconomical before achieving significant revenues.

If we or our strategic partners or licensees fail to obtain U.S. or European regulatory approval for product candidates under development, we will not be able to generate revenue in the U.S. and European markets from the commercialization of product candidates.

We must receive FDA approval for each of our product candidates before we can commercialize or sell that product candidate in the United States, and we must receive EMEA approval for each of our product candidates before we can commercialize or sell that product candidate in Europe. The FDA and EMEA can limit or deny their approval for many reasons, including:

- a product candidate may be found to be unsafe or ineffective;
- regulators may interpret data from preclinical testing and clinical trials differently and less favorably than the way we interpret it;
- regulators may not approve the manufacturing processes or facilities that we or our strategic partners or licensees use; and
- regulators may change their approval policies or adopt new regulations.

Failure to obtain FDA or EMEA approval or any delay or setback in obtaining such approval could:

- adversely affect our ability to market any drugs we develop independently or with strategic partners or licensees;
- impose additional costs and diminish any competitive advantages that our products may attain; and
- adversely affect our ability to generate royalties or product revenues.

Any such failures or delays in the regulatory approval process for any of our product candidates would delay or diminish our receipt of product revenues, if any, and would materially adversely affect our business, financial condition and results of operations.

Even if we obtain FDA or EMEA approval, our product candidate may not be approved for all indications that we request, which could limit the uses of our product and adversely impact our potential royalties and product sales. If FDA or EMEA approval of a product is granted, such approval may be subject to limitations on the indicated uses for which the product may be marketed or require costly, post-marketing follow-up studies. As to any product for which marketing approval is obtained, the production, labeling, packaging, adverse event reporting, advertising, promotion and record keeping related to the product, among other things, will be subject to extensive regulatory requirements. The subsequent discovery of previously unknown problems with the product may result in restrictions on the product, including withdrawal of the product from the market. We may be slow to adapt, or may never adapt, to changes in existing requirements or adoption of new requirements or policies.

If we fail to comply with applicable U.S. and European regulatory requirements, we may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions, injunctions, civil penalties and criminal prosecution.

If we or our strategic partners or licensees fail to obtain regulatory approvals in other countries for product candidates under development, we will not be able to generate revenue in such countries from the commercialization of product candidates.

In order for us to market our products outside of the United States and the European Union, we and our strategic partners and licensees must comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. Approval procedures vary among countries and can involve additional product testing and additional administrative review periods. The time required to obtain approval in other countries might differ from that required to obtain FDA approval or EMEA approval. The regulatory approval process in other countries may include all of the risks detailed above regarding FDA approval in the United States and EMEA approval in the European Union. Regulatory approval in one country does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one country may negatively impact the regulatory review processes in others. Failure to obtain regulatory approval in other countries or any delay or setback in obtaining such approval could have the same adverse effects detailed above regarding FDA approval in the United States and EMEA approval in the European Union. The adverse effects include the risk that our product candidate may not be approved for all indications that we request, which could limit the uses of our product and adversely impact our potential royalties and product sales, and the risk that such approval may be subject to limitations on the indicated uses for which the product may be marketed or require costly, post-marketing follow-up studies.

If we fail to comply with applicable foreign regulatory requirements, we may be subject to penalties and suspension or withdrawal of regulatory approvals.

If our partners, licensees or contract manufacturers of our products fail to devote sufficient time and resources to our concerns, or if their performance is substandard, our clinical trials and product introductions may be delayed and our costs may rise.

We have no manufacturing facilities, limited experience in the commercial manufacturing of drugs and limited experience in designing drug manufacturing processes. We depend on our partners, licensees and contract manufacturers to produce our product candidates for clinical trials and to manufacture, supply, store and distribute any resulting products.

While we have not experienced problems with our partners, licensees or contract manufacturers to date, our reliance on these third parties exposes us to the following risks, any of which could delay or prevent the completion of our clinical trials, the approval of our product candidates by the FDA, EMEA or other regulatory agencies, or the commercialization of our products, result in higher costs or deprive us of potential product revenues:

- Drug manufacturers are obligated to operate in accordance with FDA-mandated current good manufacturing practices, or cGMPs. A failure of any of our partners, licensees or contract manufacturers to establish and follow cGMPs and to document their adherence to such practices may lead to significant delays in the availability of material for clinical trials and may delay or prevent filing or approval of marketing applications for our products.
- Changing contract manufacturers may be difficult and the number of potential manufacturers is limited. Changing manufacturers may require re-validation of the manufacturing processes and procedures in accordance with FDA requirements. Such re-validation may be costly and time-consuming. It may be difficult or impossible for us to find replacement manufacturers on acceptable terms quickly, or at all.

Drug manufacturers are subject to ongoing periodic unannounced inspections by the FDA and corresponding state and foreign agencies to ensure strict compliance with cGMPs, other government regulations and corresponding foreign standards. We are not aware of any violations by our partners, licensees or contract manufacturers of any of these regulations or standards. While we will be obligated to audit the performance of our contractor manufacturers, we will not have control over their compliance with these regulations and standards. Failure by our partners, licensees, contract manufacturers or us to comply with applicable regulations could result in sanctions that would have a material adverse effect on our business, including fines, injunctions, civil penalties, failure of the government to grant pre-marketing approval of drugs, delays, suspension or withdrawal of approvals, seizures or recalls of products, operating restrictions and criminal prosecutions.

We depend on the efforts of our strategic partners, licensors and licensees to develop and commercialize many of our product candidates.

We cannot control the time or resources that our strategic partners, licensors or licensees devote to our collaborations with those parties, nor can we control our strategic partners', licensors' or licensees' business decisions. In addition, our collaborators may not perform their obligations as expected. Changes in a collaborator's business strategy or business combinations involving a collaborator may adversely affect that party's willingness or ability to successfully meet its obligations. Disagreements between us and our collaborators may lead to delays in or termination of the research, development or commercialization of product candidates or result in time-consuming and expensive negotiations, litigation or arbitration. The failure of our strategic partners, licensors or licensees to successfully complete their obligations in a timely manner or the termination or breach of agreements by these parties could materially harm our business, financial condition and results of operations.

We or our strategic partners or licensees may not be able to manufacture our product candidates in commercial quantities, which would prevent us from commercializing our product candidates.

To date, our product candidates have been manufactured in small quantities for preclinical and clinical trials. If any of our product candidates are approved by the FDA, EMEA or other regulatory agencies for

commercial sale, they will need to be manufactured in larger quantities. We or our strategic partners or licensees, as applicable, may not be able to successfully increase the manufacturing capacity, whether in collaboration with contract manufacturers or independently, for any of our product candidates in a timely or economic manner, or at all. Significant scale-up of manufacturing may require additional validation studies, which the FDA and the EMEA must review and approve. If we or our strategic partners or licensees are unable to successfully increase the manufacturing capacity for a product candidate, the regulatory approval or commercial launch of that product candidate may be delayed or there may be a shortage in supply. Our product candidates require precise, high-quality manufacturing. Failure to achieve and maintain these high manufacturing standards, including the incidence of manufacturing errors, could result in patient injury or death, product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could adversely affect our business.

The contract research organizations and independent clinical investigators that we and our strategic partners or licensees rely upon to conduct preclinical studies and clinical trials may not be diligent, careful or timely, and may make mistakes in the conduct of these studies.

We depend on contract research organizations, or CROs, and independent clinical investigators to conduct certain preclinical studies and clinical trials under their agreements with us or our collaborators. In our preclinical research programs, we depend on CROs to conduct certain efficacy, safety and toxicity testing activities that we are not staffed to perform ourselves. The personnel at these CROs are not our employees and we cannot control the amount or timing of resources that they devote to such programs. Our contracts with CROs may involve fixed fees. If the costs of performing the research activities or clinical trials exceed estimates, the CROs may fail to devote sufficient time and resources to our drug discovery and development programs, fail to enroll patients as rapidly as expected, or otherwise fail to perform in a satisfactory manner. Failure of the CROs to meet their obligations could adversely affect the development of our product candidates and delay the regulatory approval and commercial introduction of our product candidates. Moreover, these independent investigators and CROs may also have relationships with other commercial entities, some of which may compete with us. If independent investigators and CROs assist competitors, it could harm our competitive position.

Failure to enroll patients for clinical trials may cause delays in developing our product candidates.

We may encounter delays or rejections if we or our strategic partners or licensees are unable to enroll enough patients to complete clinical trials. Patient enrollment 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 the number and size of ongoing clinical trials sponsored by others that seek to enroll similar patients. When one product candidate is evaluated in multiple clinical trials simultaneously, patient enrollment in ongoing trials can be adversely affected by negative results from completed trials. Any delays in planned patient enrollment may result in increased costs and delays, which could harm our ability to develop products.

If we are unable to retain and recruit qualified scientists or if any of our key executives, key employees or key consultants discontinues his or her employment or consulting relationship with us, this may delay our development efforts or otherwise harm our business.

We, like many biotechnology companies, are highly dependent on the key members of our management and scientific staff. The loss of any of our key employees or key consultants could impede the achievement of our research and development objectives. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to our success. We may be unable to attract and retain personnel on acceptable terms given the competition among biotechnology, pharmaceutical and health care companies, universities and non-profit research institutions for experienced scientists.

Currently, we consider three employees to be key to our success. These are Werner Lanthaler, Chief Executive Officer, Dr Mario Polywka, Chief Operating Officer, and Dr Klaus Maleck, Chief Financial Officer. All of these employees are highly qualified and very experienced in the biotechnology industry.

We have employment agreements with each of these key employees. The service agreements with the management board members Werner Lanthaler, Mario Polywka and Klaus Maleck, contain a change of control clause that gives them the right of extraordinary termination if a shareholder acquires a holding of more than 30% of our shares.

Among other benefits, we have granted stock options as a method of attracting and retaining employees. Due to fluctuations in the trading price of our ordinary shares, a substantial portion of the stock options held by our employees have exercise prices that are significantly higher than the current trading price of our ordinary shares. If we are unable to offer competitive remuneration including stock options that provide sufficient incentives, we may be unable to retain our existing employees and attract additional qualified candidates.

In the recent past, we have not encountered difficulties in attracting and retaining qualified employees and as far as we are aware, none of the key employees plans to retire or leave us in the near future.

Governmental and third party payors may impose sales and pharmaceutical pricing restrictions or controls on our potential products that could limit our future product revenues and adversely affect our profitability.

The commercial success of our potential products is substantially dependent on whether third-party reimbursement will be available for our potential products. Government medical reimbursement programs, such as Medicare and Medicaid in the United States, health maintenance organizations and other third-party payors may not fully cover or provide adequate payment for our potential products. They may not view our potential products as cost-effective and reimbursement may not be available to patients or may not be sufficient to allow potential products to be marketed on a competitive basis. Likewise, legislative or regulatory efforts to control or reduce health care costs or reform government health care programs could result in lower prices or rejection of our potential products. Changes in reimbursement policies or health care cost containment initiatives that limit or restrict reimbursement for our products may cause our future product revenues, if any, to decline.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our employees' former employers.

Many of our employees were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain product candidates, which could severely harm our business.

We face potential product liability exposure far in excess of our insurance coverage.

The use of any of our product candidates in clinical trials, and the sale of any approved products, may expose us to product liability claims. These claims might be made directly by patients, health care providers, pharmaceutical companies or others selling our products. We have obtained limited product liability insurance coverage for our clinical trials and such insurance may not be sufficient to cover expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. On occasion, juries have awarded large judgments in lawsuits based on drugs that had unanticipated side effects in the United States. A successful product liability claim or series of claims brought against us would increase our costs, decrease our cash reserves and could cause the price of our ordinary shares and ADSs to decline.

We and our German affiliates have product liability insurance in place with a combined single limit for bodily injury and property damage of €10 million per occurrence (but with a maximum of €2,556,460 per individual person injured) and a limit of €20 million for any one calendar year. Evotec (UK) Ltd. has product liability insurances in place with a joint limit of indemnity of £20 million per occurrence. The product liability for clinical trials is insured separately on a case by case basis, usually in the range of $1 million per subject. The cost of such coverage is not material. Our U.S. subsidiary, Renovis, is included in our German product liability insurance. We are not aware of any pending threats of product liability claims.

We are subject to significant environmental, health and safety regulations, compliance with which can be expensive.

We are subject to a variety of health, safety and environmental laws and regulations in the United States, Germany, the United Kingdom and other countries. These laws and regulations govern, among other things, wastewater discharge, air emissions and waste management. We have incurred, and will continue to incur, capital and operating expenditures and other costs in the ordinary course of our business in complying with these laws and regulations. Because we produce small amounts of experimental compounds and operate laboratory facilities, some risk of environmental liability is inherent in our business. Additionally, material costs of environmental compliance may arise in the future, increasing the overall costs of regulatory compliance.

Our activities involve biological, genetically modified and hazardous materials, and we may be liable for any resulting contamination or injuries.

Our manufacturing and research and development activities sometimes involve the controlled use and disposal of potentially harmful biological materials, genetically modified materials, hazardous materials, chemicals and infectious disease agents. Although management believes that our safety procedures for handling, storing and disposing of such materials comply with the standards prescribed by applicable regulations, we cannot completely eliminate the risk of contamination or injury from these materials. We also occasionally contract with third parties for the disposal of some of these materials. In addition, our collaborators and service providers may be working with these types of materials in connection with our collaborations. In the event of an accident or contamination, we could be held responsible for any injury caused to persons or property by exposure to, or release of, these materials and could be held liable for significant damages, civil penalties or fines, which may not be covered by or may exceed our insurance coverage.

We and our German affiliates have insurance coverage in place for our use of biological, genetically modified and hazardous materials with limits of €10 million per occurrence (but with a maximum of €2,556,460 per individual person injured) and a limit of €20 million for any one calendar year. Evotec (UK) Ltd. has such insurance coverage in place with a joint limit of indemnity of £20 million per occurrence. Our U.S. subsidiary, Renovis, currently has general liability insurance in place with a limit of $5 million per occurrence.

Additionally, we are subject on an ongoing basis to a variety of laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of continued compliance with current or new laws and regulations might be significant and could negatively affect our profitability, and current or future environmental regulation may impair our ongoing research, development or manufacturing efforts.

We may not be able to conduct, or contract others to conduct, animal testing in the future, which could harm our research and development activities.

Certain laws and regulations relating to drug development require us to test our product candidates on animals before initiating clinical trials involving humans. Animal testing activities have been the subject of controversy and adverse publicity. Animal rights groups and other organizations and individuals have attempted to stop animal testing activities by pressing for legislation and regulation in these areas and by disrupting these activities through protests and other means. To the extent the activities of these groups are successful, our research and development activities may be interrupted or delayed.

Item 4. Information on the Company

History and Development of the Company

Our legal and commercial name is Evotec AG. Our principal executive offices are located at Schnackenburgallee 114, 22525 Hamburg, Germany and our telephone number is (49-40) 56-0810. Our corporate website is located at www.evotec.com. Our authorized representative in the United States is Cony d'Cruz, Evotec Inc., 5 Turley Court, North Potomac, MD 20878. Our agent for service in the United States is Corporation Service Company, 1133 Avenue of the Americas, Suite 3100, New York, NY 10036. We completed our initial public offering in Germany on November 10, 1999 and our ordinary shares are traded on the Frankfurt Stock Exchange under the symbol "EVT" and our ADSs are traded on the NASDAQ Global Market under the symbol "EVTC."

We were originally formed as a limited liability company (*Gesellschaft mit beschränkter Haftung or GmbH*) under German law in December 1993 under the name Evotec BioSystems GmbH. On August 7, 1998, we transformed into a stock corporation (*Aktiengesellschaft or AG*) under German law and changed our name to EVOTEC BioSystems AG. Following the acquisition of Oxford Asymmetry International plc, or OAI, in 2000, we changed our name to Evotec OAI AG.

In May 2005, we acquired the remaining and total outstanding 78% interest in Evotec NeuroSciences GmbH, or ENS, in exchange for 14,276,883 ordinary shares of Evotec AG. The €40.9 million net purchase price was allocated to the assets acquired and goodwill. Upon acquiring ENS, we changed our name to Evotec AG. ENS is party to our licensing agreements with Roche.

In March 2007, we acquired all of the shares of the privately held French company Neuro3d S.A., or Neuro3d, in exchange for 5,726,012 of newly issued ordinary shares. As a result of the acquisition, we acquired more than €18.9 million net cash and investments and some early stage CNS discovery assets. Neuro3d has been consolidated in our financial statements since April 1, 2007.

In 2006 and 2007, we divested businesses that were not core to our strategy of focusing on higher-value discovery projects. Effective January 2007, we sold our 89% interest in Evotec Technologies GmbH to PerkinElmer for €23.9 million in cash. Evotec Technologies GmbH comprised our activities in the development and manufacture of research tools and instruments for the life science industry. Evotec Technologies GmbH's product portfolio was focused on high-end technologies for automated cell biology and ultra-high throughput screening. With 80 employees at year-end 2006, Evotec Technologies GmbH accounted for €17.3 million, or 20.5%, of our total revenue for the fiscal year 2006.

In November 2007, we completed a transaction to sell our Chemical Development Business to Aptuit, Inc. for €42.5 million. The Chemical Development Business comprised our capabilities in process research and development, custom preparation, analytical development, pilot plant manufacturing and formulation. With approximately 203 employees based in Oxford and Glasgow, UK, the Chemical Development Business generated €26.8 million of third-party revenues (40% of our total revenues) for the fiscal year 2006.

With our disposition of Evotec Technologies GmbH and the Chemical Development Business, we intend to focus our strategy on higher value, results-based projects in which we share in our customers' success through milestone payments and royalties in addition to ongoing research payments, while at the same time continuing to enter into collaborative projects that generate steady revenues from contract research.

In addition, in 2007, according to our strategy to focus our capabilities on high value-added research and to leverage the potential of offering this capability based on lower cost, we transferred our library business to India. In a joint venture with Research Support International Limited (RSIL), Evotec-RSIL Ltd. offers the design, synthesis, management and commercialization of compound libraries at competitive prices for customers. In 2006, the last full year we wholly owned this business, the library business generated revenues of €6.6 million. Revenues for the period January through August 2007, prior to the transfer to the joint venture, for the library business were €0.8 million.