FORM 10-K

Annual report pursuant to section 13 and 15(d)

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CRESCENDO PHARMACEUTICALS CORP

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

FORM 10-K

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998

Commission File Number 0-22927

CRESCENDO PHARMACEUTICALS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	77-0460388
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1454 Page Mill Road, Palo Alto, California	94304
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (650) 494-5600

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Class A Common Stock

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 [X] 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. [X]

State the aggregate market value of the voting stock held by non-affiliates of the registrant, as of March 12, 1999: $71,378,631

Number of shares outstanding of each of the registrant's classes of common stock as of March 12, 1999:

Class A Common Stock, $.01 par value 4,965,470 shares
Class B Common Stock, $1.00 par value 1,000 shares

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12 and 13 of Part III are incorporated by reference to the definitive proxy statement for the registrant's Annual Meeting of Stockholders to be held on May 6, 1999.

CRESCENDO PHARMACEUTICALS CORPORATION
Annual Report on Form 10-K
for the fiscal year ended December 31, 1998

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PART I

Item 1. Business

Notice Concerning Forward-Looking Statements

Some of the statements made in this Form 10-K, including, without limitation, statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations", are forward-looking in nature. Forward-looking statements include but are not limited to statements that are not historical facts and statements including forms of the words "intend", "believe", "will", "may", "could", "expect", "anticipate", "possible" and similar terms. The occurrence of the events described, and the achievement of the intended results, are subject to the future occurrence of many events, some or all of which are not predictable or within the control of Crescendo Pharmaceuticals Corporation ("Crescendo") including, without limitation, any possible future actions by ALZA Corporation ("ALZA"), and various risk factors; therefore, actual results may differ materially from those anticipated in any forward-looking statements. The significant risks related to Crescendo's business are those associated with technology and product development, clinical development, product manufacturing, regulatory clearance to market products, patent and intellectual property matters, medical and market acceptance of products (including third party reimbursement), changes in the health care marketplace, commercializing products (including competition), conflicts of interest between ALZA, and Crescendo and the limited funds available to complete the development of Crescendo Products.

Overview of Crescendo's Business

Crescendo was incorporated in Delaware on June 26, 1997 and commenced operations on September 30, 1997. Crescendo was formed by ALZA for the purpose of selecting and developing human pharmaceutical products (the "Crescendo Products") and commercializing such products, most likely through licensing to ALZA. Crescendo Products generally are expected to combine ALZA's drug delivery technologies with available therapeutic agents. In addition, Crescendo may fund the development of products licensed from third parties that complement ALZA's product pipeline or otherwise provide a significant commercialization opportunity for ALZA.

On September 30, 1997, ALZA distributed all of the outstanding shares of Crescendo Class A Common Stock (the "Crescendo Shares"), a total of 4,965,470, to the holders of ALZA's common stock and ALZA's convertible subordinated debentures. Crescendo Shares are traded on The Nasdaq Stock Market-Service Mark- under the symbol "CNDO." In connection with the distribution, ALZA contributed $300 million in cash to Crescendo, which will be used primarily to fund the development of Crescendo Products. In addition, at the time of the distribution, Crescendo and ALZA entered into a number of agreements, including a Development Agreement, Technology License Agreement, License Option Agreement and Services Agreement, discussed under "Arrangements with ALZA" below. ALZA holds 1,000 shares of Crescendo Class B Common Stock.

Since its formation, Crescendo's principal activities have been conducting product development under its agreements with ALZA. In accordance with generally accepted accounting principles, Crescendo is considered a development stage company.

Arrangements with ALZA

DEVELOPMENT AGREEMENT. Crescendo and ALZA have a Development Agreement pursuant to which ALZA conducts product development and related activities on behalf of Crescendo under work plans and cost estimates that have been proposed by ALZA and approved by Crescendo. Crescendo is required to use the cash initially contributed to it by ALZA, plus interest thereon, less Crescendo's administrative expenses, the Technology Fee (discussed below) paid to ALZA, and reserves of up to $2 million (the "Available Funds") to conduct activities under the Development Agreement. Activities under the Development Agreement include the development of Crescendo Products and the identification of potential new products for development by Crescendo. In addition, ALZA may, on behalf of Crescendo, perform technical evaluations of product opportunities involving proprietary agents of third parties that may be available for licensing or other collaborative arrangements for use in a Crescendo Product. The fully-burdened costs of all of these activities are charged by ALZA to Crescendo monthly, as "Development Costs."

Under the Development Agreement, Crescendo initially agreed to fund the development of seven products (the "Initial Products"), which was commenced by ALZA and Therapeutic Discovery Corporation ("TDC"), during the period from August 25, 1997, the date on which TDC ceased funding such products, through October 31, 1997. As of December 31, 1998, three of the seven Initial Products (OROS-registered trademark- oxybutynin, DUROS-registered trademark-leuprolide and OROS methylphenidate) remained in active development and/or had been licensed by ALZA. See "Disclosed Products in Development" below.

All technology developed or otherwise obtained pursuant to the Development Agreement ("Developed Technology") is owned by ALZA, subject to Crescendo's right to use such technology in Crescendo Products. ALZA will pay Crescendo a royalty equal to 1% of net sales of products, other than Crescendo Products, that use any patented Developed Technology.

TECHNOLOGY LICENSE AGREEMENT. Crescendo and ALZA have a Technology License Agreement pursuant to which ALZA has granted to Crescendo a worldwide license to use ALZA technology solely to select and develop the Crescendo Products(including the Initial Products), to conduct related activities, and to commercialize Crescendo Products. In exchange for the license to use existing ALZA technology relating to the Initial Products, Crescendo pays a technology fee (the "Technology Fee") to ALZA, monthly, over a period of three years, in the amount of $1 million per month for the first 12 months following the distribution of Crescendo Shares, $667,000 per month (beginning in September 1998) for the following 12 months and $333,000 per month for the next 12 months. The Technology Fee will no longer be payable at such time as fewer than two of the Initial Products are being developed by Crescendo and/or have been licensed by ALZA pursuant to the License Option (described below). The Technology Fee is included in research and development expenses.

LICENSE OPTION AGREEMENT. Pursuant to a License Option Agreement entered into by Crescendo and ALZA, Crescendo has granted ALZA an option to acquire a license to each Crescendo Product (the "License Option"). The License Option for any Crescendo Product is exercisable on a country-by-country basis at any time until (i) with respect to the United States, 30 days after clearance by the FDA to market such Crescendo Product in the United States and (ii) with respect to any other country, 90 days after the earlier of (a) clearance by the appropriate regulatory agency to market the Crescendo Product in such country and (b) clearance by the FDA to market the Crescendo Product in the United States. The License Option will expire, to the extent not previously exercised, 30 days after the expiration of ALZA's option to purchase all of the outstanding Crescendo Shares ("See Purchase Option" below). If and to the extent the License Option is exercised as to any Crescendo Product, ALZA will acquire a perpetual, exclusive license (with the right to sublicense) to develop, make, have made and use the licensed product, and to sell and have sold the licensed product in the country or countries as to which the License Option is exercised.

LICENSE AGREEMENT. Under the License Agreement, for each licensed product, ALZA will make payments to Crescendo with respect to the licensed product equal to 1% of net sales of the licensed product by ALZA and its sublicensees, distributors and marketing partners, plus an additional 0.1% of such net sales for each full $1 million of Development Costs of the licensed product that have been paid by Crescendo, not to exceed 2.5% of net sales in the first year a licensed product is sold in a major market country, and not to exceed 3% for the following two years. ALZA has the right to buy out Crescendo's right to receive payments for any or all licensed products on a country-by-country or global basis in accordance with a formula set forth in the License Agreement. As of December 31, 1998, ALZA exercised its option to obtain a worldwide license to one of the Initial Products, OROS oxybutynin. See "Licensed Products" below.

PURCHASE OPTION. Pursuant to Crescendo's Restated Certificate of Incorporation, ALZA has the right to purchase all (but not less than all) of the Crescendo Shares (the "Purchase Option"). The Purchase Option is exercisable by written notice to Crescendo at any time until January 31, 2002, provided that such date will be extended for successive six month periods if, as of any July 31 or January 31 beginning with July 31, 2001, Crescendo has not paid (or accrued expenses for) at least 95% of Available Funds pursuant to the Development Agreement. In any event, the Purchase Option will terminate on the 60th day after Crescendo provides ALZA with a statement that, as of the end of any calendar month, there are less than $2.5 million of Available Funds remaining, accompanied by a report of Crescendo's independent auditors.

If the Purchase Option is exercised, the exercise price will be the greatest of:

(a)(i) 25 times the actual payments made by or due from ALZA to Crescendo under the Development Agreement and the License Agreement for any product (and, in addition, such payments as would have been made by or due from ALZA to Crescendo if ALZA had not previously exercised its payment buy-out option with respect to any such payments) for the four calendar quarters immediately preceding the quarter in which the Purchase Option is exercised (provided, however, that for any product which has not been commercially sold during each of such four calendar quarters, the portion of the exercise price for such product will be 100 times the average of the quarterly payments made by or due from ALZA to Crescendo for each of such calendar quarters during which such product was commercially sold) less (ii) any amounts previously paid to exercise any payment buy out option;

(b) the fair market value of one million shares of ALZA common stock;

(c) $325 million less all amounts paid by or due from Crescendo under the Development Agreement to the date the Purchase Option is exercised; and

(d) $100 million.

In each case, the amount payable as the Purchase Option exercise price will be reduced to the extent, if any, that Crescendo's liabilities at the time of exercise (other than liabilities under the Development Agreement, the Technology License Agreement and the Services Agreement, described below) exceed Crescendo's cash and cash equivalents, and short-term and long-term investments (excluding the amount of Available Funds remaining at such time). ALZA may pay the exercise price in cash, in ALZA common stock or in any combination of cash and ALZA common stock.

At December 31, 1998, Crescendo had $175.4 million of Available Funds remaining.

SERVICES AGREEMENT. Crescendo and ALZA have a Services Agreement pursuant to which ALZA provides certain administrative services, including accounting and legal services, to Crescendo. Specified charges for such services are generally intended to allow ALZA to recover direct costs of providing the services, including fully-allocated overhead, plus all out of pocket costs and expenses, but without any profit (fully-burdened cost). The Services Agreement originally had a one year term and is renewed automatically for successive one year terms during the term of the Development Agreement, unless terminated by Crescendo at any time upon 60 days' written notice.

Disclosed Products in Development

As described above, under the Development Agreement, Crescendo agreed to fund the development of the Initial Products through October 31, 1997. The Initial Products were OROS oxybutynin, DUROS-registered trademark- leuprolide, OROS methylphenidate, IUTS progesterone, D-TRANS-registered trademark- testosterone matrix, E-TRANS-registered trademark- LHRH and E-TRANS Macroflux-trademark- insulin. As of December 31, 1998, three of the seven Initial Products (OROS oxybutynin, DUROS leuprolide, and OROS methylphenidate) were still in active development. On ALZA's recommendation, Crescendo has ceased funding further development of the other Initial Products. In addition, in January of 1998, Crescendo agreed to fund the development of an E-TRANS fentanyl product for the treatment of chronic and break-through pain. The disclosed products in active development are described below:

- OROS oxybutynin - The OROS oxybutynin product, for the treatment of overactive bladder with symptoms including urge urinary incontinence, urgency and frequency, was approved by the United States Food and Drug Administration ("FDA") on December 16, 1998. Phase IV clinical studies of the product are continuing. The product was introduced by ALZA in the United States on February 1, 1999 under the trade name Ditropan-registered trademark- XL. Synthelabo has rights to market the product in Europe, after regulatory approval, under an agreement with ALZA.

- DUROS leuprolide - The DUROS leuprolide product is a small osmotically-driven implantable system designed to deliver leuprolide continuously for up to 12 months to provide palliative treatment of advanced prostate cancer. The product is currently in Phase III clinical trials, and ALZA has stated that it plans to submit an NDA on the product in 1999.

- OROS methylphenidate - The OROS methylphenidate product is a once-daily treatment for Attention Deficit Disorder/Attention Deficit Hyperactivity Disorder. Pivotal Phase III clinical trials are ongoing, and ALZA has stated that it plans to submit an NDA for the product in 1999.

- E-TRANS fentanyl (chronic and break-through pain) - ALZA and Crescendo are developing an E-TRANS fentanyl product for the treatment of chronic and break-through pain. ALZA and Janssen Pharmaceutica, Inc. (together with its affiliates "Janssen") have an agreement pursuant to which Janssen has an option, until a specified date, to take over funding the continued development of the product and to commercialize the product worldwide. If Janssen does not exercise its option, Crescendo has the right to continue the development of the product with ALZA. The product is in early development.

Licensed Products

On December 16, 1998, the FDA approved Ditropan XL for marketing in the United States. The product is the first and only once-a-day treatment for overactive bladder approved for marketing in the United States. Also on December 16, 1998, ALZA exercised its option to obtain a worldwide license to OROS oxybutynin from Crescendo and announced a commercialization agreement with Synthelabo for the product in Europe. ALZA launched the product in the United States under the trade name Ditropan XL on February 1, 1999. Under the terms of the license agreement between Crescendo and ALZA, Crescendo will receive payments from ALZA based on worldwide net sales of the product. For the first three years the rates will be 2.5%, 3.0%, and 3.0% of net sales, respectively; thereafter the rate is expected to be between 5% and 6%, based on the Development Costs to date and future anticipated Development Costs to be paid by Crescendo.

Certain Risks Associated with Crescendo's Business

PRODUCT SELECTION AND DEVELOPMENT RISKS. Each pharmaceutical product requires extensive development and clinical activities before an application can be filed for regulatory clearance to market the product. It should be expected that some of the products for which development is initiated by Crescendo and ALZA ultimately will not become commercial products. Among the many risks inherent in the development process are the following:

- Product Selection - Under the Development Agreement, ALZA is responsible for identifying and recommending potential candidates for development as Crescendo Products. There can be no assurance that ALZA will recommend, or that Crescendo will approve, appropriate products for development. In addition, for each new product, the proper performance characteristics must be defined, and the product must be designed and developed to meet those characteristics.

- Technology Risks - Crescendo Products generally are expected to utilize ALZA's drug delivery technologies. To create successful products, enhancements or modifications to existing ALZA technologies may be required. ALZA's DUROS and E-TRANS technologies, which are being utilized in Crescendo Products that are in active development, are relatively new, and neither of these technologies has yet been incorporated in a commercially marketed product. See "Patents and Patent Applications" below.

- Small-Scale Manufacturing - Once a product is developed, it must be manufactured, on a small scale, for clinical testing. Small-scale manufacturing can be costly and time-consuming. ALZA's drug delivery technologies generally require complex manufacturing processes. In addition, DUROS products require aseptic manufacturing.

- Clinical Studies - Once a product has been successfully manufactured on a small scale, trials to show clinical safety and efficacy must be undertaken and completed. In general, performance of a product in clinical studies must be consistent with the selected performance characteristics for that product in order for the product to be successful. Clinical studies are costly, and can take many years to complete. There can be no assurance that the desired outcomes will be shown in the clinical studies.

- Sufficiency of Funding - Crescendo's initial $300 million of capital was contributed by ALZA. At December 31, 1998, Crescendo had approximately $175.4 million of Available Funds remaining. ALZA has no obligation to contribute additional funds. There can be no assurance that Crescendo will have sufficient funds to complete the development of the Crescendo Products. See "Risks Associated with Crescendo's Relationship with ALZA" below.

- Inability to Raise New Capital - Crescendo most likely would not be able to raise additional capital or borrow funds until ALZA's Purchase Option is exercised or expires. If the Purchase Option expires unexercised, there will remain considerable risk that Crescendo could not raise sufficient funds to continue to develop its products.

For risks associated with regulatory clearances and pricing approvals, see "Governmental Regulation" below.

PRODUCT MANUFACTURING AND MARKETING RISKS. Even if Crescendo Products are developed and receive necessary regulatory clearances and approvals, there can be no assurance that the Crescendo Products can be successfully manufactured or marketed. There are numerous risks associated with the manufacturing and marketing of pharmaceutical products, including the following:

- Commercial-Scale Manufacturing - Sometimes small-scale manufacturing processes must be modified in order to achieve successful commercial manufacturing and to obtain a reproducible, robust process. Particularly for products incorporating newer ALZA technologies, this commercial manufacturing scale-up could take several years and cost millions of dollars. Facilities that manufacture commercial pharmaceutical products sold in the United States must pass a rigorous pre-approval inspection by the FDA. Failure to pass this inspection could delay the introduction of a product, sometimes for significant periods.

- Manufacturing Capability - If ALZA exercises its License Option for any Crescendo Product, ALZA may need to expand its manufacturing capabilities to provide commercial quantities of such product. If ALZA does not exercise its License Option for any Crescendo Product, Crescendo will have to make its own arrangements for manufacturing such product, because Crescendo currently has no manufacturing capability and does not expect to develop such capability. To manufacture any Crescendo Product itself, Crescendo would need substantial additional funds.

- Sales and Marketing Capability - ALZA's sales organization is currently focused on certain target markets in the United States and Canada and has no significant operations outside such countries. If ALZA exercises its License Option for any Crescendo Product, ALZA may need to develop and/or expand its sales and marketing capabilities (or arrange for sales and marketing by third parties) in order to commercialize such product effectively. If ALZA does not exercise its License Option for any Crescendo Product, Crescendo will need to find other means to commercialize such product. Many pharmaceutical company competitors have far larger sales forces and significantly greater resources and experience in marketing pharmaceutical products than ALZA or Crescendo. See "Competition" below.

Changes in the Pharmaceutical Marketplace - Because it takes many years to bring a pharmaceutical product to market, it is possible that the competitive environment could change during the period when a Crescendo Product is in development. For example, because of changes in the marketplace, a Crescendo Product could have less commercial potential than was anticipated when the product was conceived and development was initiated. In such an event, ALZA may not consider the product attractive for commercialization, and Crescendo may have expended substantial funds to develop a product that ALZA may not license and that may not be sufficiently attractive to third parties.

RISKS ASSOCIATED WITH CRESCENDO'S RELATIONSHIP WITH ALZA. The terms of the agreements between ALZA and Crescendo and Crescendo's Restated Certificate of Incorporation were not determined on an arms'-length basis. As a result, certain events are outside Crescendo's control and there are certain limits on Crescendo's activities and its market value.

- No Assurance of Exercise of ALZA's Options - ALZA is not obligated to exercise the License Option for any Crescendo Product or to exercise the Purchase Option. The timing of the exercise of the License Option with respect to any Crescendo Product is, to a certain extent, within ALZA's control, and if ALZA exercises its License Option for any Crescendo Product, the continued development and commercialization of any such product will be controlled by ALZA. The timing of the exercise of the Purchase Option is also within ALZA's control and, therefore, ALZA may exercise the Purchase Option, if at all, when the Purchase Option exercise price is as low as possible.

- Dependence on ALZA for Personnel and Facilities - Crescendo depends substantially on ALZA for research and development activities, including the development of the Crescendo Products, and for administrative services. However, ALZA must use its personnel and facilities to meet its obligations to other clients and to conduct its own activities. There can be no assurance that ALZA's available personnel and facilities will be adequate for the performance of its duties to Crescendo.

- Limitations on Crescendo's Activities - Crescendo's Restated Certificate of Incorporation prohibits Crescendo from taking or permitting any action that might impair ALZA's rights under the Purchase Option and does not allow Crescendo to amend its Restated Certificate of Incorporation to alter the Purchase Option or Crescendo's authorized capitalization without the consent of ALZA. Crescendo's ability to raise additional funds may be limited, or even prevented, by such provisions. In addition, during the term of ALZA's License Option for each Crescendo Product, Crescendo will not be able to license such product to any other party. If ALZA exercises its License Option for a Crescendo Product, Crescendo's involvement in the commercialization of that product will be substantially limited.

- Limitation on Crescendo's Market Value - So long as the Purchase Option is exercisable, the market value of Crescendo Class A Common Stock will be limited by the formula setting forth the Purchase Option exercise price in the Crescendo's Restated Certificate of Incorporation.

Governmental Regulation

Under the United States Food, Drug, and Cosmetic Act, "new drugs" must obtain clearance from the FDA before they lawfully can be marketed in the United States. Applications for marketing clearance must be based on extensive clinical and other testing, the cost of which is very substantial. Approvals (sometimes including pricing approvals) are required from health regulatory authorities in foreign countries, particularly in Europe, before marketing of pharmaceutical products may commence in those countries. Requirements for approval may differ from country to country, and can involve additional testing. There can be substantial delays in obtaining required clearances from both the FDA and foreign regulatory authorities after applications are filed. Even after clearances are obtained in countries that require pricing approvals, further delays may be encountered before the products become commercially available.

The manufacture, quality assurance, record-keeping, packaging, labeling and advertising of all pharmaceutical products are also subject to extensive FDA regulation and the regulation of comparable agencies in other countries. Failure to obtain, or any delays in obtaining, regulatory clearance to market new products, as well as other regulatory actions and recalls, could adversely affect the commercial potential of a product.

Patents and Patent Applications

Under the Development Agreement, ALZA determines whether and to what extent to seek patent protection for Crescendo Products and Developed Technology. If ALZA declines to seek patent protection for any Crescendo Product or any Developed Technology, Crescendo does not have the right to seek such protection on its own.

Patent protection generally has been important in the pharmaceutical industry and the commercial success of Crescendo Products may depend, in part, upon ALZA's election to seek patent protection and its ability to obtain such patents both in the United States and abroad. Although ALZA's current patents, pending patent applications, and any patents obtained on future applications covering any ALZA technology, Developed Technology or Crescendo Products are likely to be important to Crescendo's future operations, there can be no assurance that any additional patents will be issued or that any patents now or hereafter issued will be of commercial benefit.

In the United States, patents are generally granted for specified periods of time. Some of ALZA's earlier patents covering various aspects of certain ALZA technology licensed to Crescendo, particularly the OROS dosage form, have expired or will expire over the next several years; however, ALZA technology is generally covered by multiple patents. If a Crescendo Product were not covered by ALZA patents, third parties would be able to market the identical product without payment to Crescendo.

Although a patent has a statutory presumption of validity in the United States, the issuance of a patent is not conclusive as to such validity or as to the enforceable scope of the claims of the patent. There can be no assurance that ALZA patents covering any ALZA technology, Developed Technology or Crescendo Product will not be successfully challenged in the future. In some cases, third parties have initiated reexamination by the Patent and Trademark Office of patents issued to ALZA, and have opposed ALZA patents in other jurisdictions. The validity or enforceability of ALZA patents after their issuance has also been challenged in litigation. If the outcome of such litigation is adverse to ALZA, third parties may then be able to use the invention covered by the patent, in some cases without payment. There can be no assurance that ALZA patents will not be infringed or successfully avoided through design innovation.

It is also possible that third parties may obtain patent or other proprietary rights that may be necessary or useful to Crescendo. With numerous other companies engaged in developing drug delivery technologies, it can be expected that other parties may in some circumstances file patent applications or obtain patents that compete in priority with ALZA's patent applications. Such competition may result in adversarial proceedings such as patent interferences and oppositions, which can increase the uncertainty of patent coverage. In cases where third parties are first to invent a particular product or technology, it is possible that those parties will obtain patents that will be sufficiently broad so as to prevent Crescendo from using certain technology or from further developing or commercializing certain products. If licenses from third parties are necessary but cannot be obtained, commercialization of Crescendo Products would be delayed or prevented.

In addition, Crescendo utilizes significant unpatented proprietary ALZA technology, and there can be no assurance that others will not develop similar technology.

Competition

It can be expected that all or most of the Crescendo Products will face competition at the time of introduction into the marketplace, or thereafter, from different therapeutic agents intended for treatment of the same indication. In addition, all or most Crescendo Products will face competition both from traditional formulations of drugs and from advanced delivery systems being developed by others. ALZA undertakes client-sponsored product development activities with major pharmaceutical companies in addition to its activities on behalf of Crescendo. Such client-sponsored activities may involve the development of products that compete directly with Crescendo Products. In addition, ALZA may itself, without Crescendo funds, develop products using ALZA's drug delivery technology that compete directly with Crescendo Products.

In some instances, because Crescendo is developing products which incorporate drugs that are off-patent or being developed by multiple companies, Crescendo will face competition from products incorporating the same or substantially similar therapeutic agents. A major challenge faced by Crescendo and other pharmaceutical companies is competition from generic pharmaceutical manufacturers. Generic competitors generally are able to obtain regulatory approval for off-patent drugs without investing in costly and time-consuming clinical trials, and need only demonstrate bioequivalence to the drug they wish to copy. Because of their substantially reduced development costs, generic companies are often able to charge much lower prices for their products than the originator of a new product. Crescendo Products may be subject to generic competition to the extent competitors can demonstrate bioequivalence without infringing ALZA patents covering Crescendo Products.

Crescendo's competition potentially includes all of the pharmaceutical companies in the world, including ALZA and ALZA's clients. Many of these other pharmaceutical companies have greater financial resources, technical staffs and manufacturing and marketing capabilities than ALZA or Crescendo.

Competition among pharmaceutical products is generally based on performance characteristics and price. Acceptance by hospitals, physicians and patients is crucial to the success of a product. Health care reimbursement policies of managed care organizations, insurers and government agencies will continue to exert pressure on pricing, and various federal and state agencies have enacted regulations requiring rebates of a portion of the purchase price of many pharmaceutical products. Cost-effectiveness, although often difficult to measure, is becoming increasingly critical to a successful commercial product.

The health care industry has continued to change rapidly as the public, government, medical practitioners and the pharmaceutical industry focus on ways to expand medical coverage while controlling the growth in health care costs. The growth of managed care organizations and the resulting pressures for cost-containment in the United States health care system are expected to continue to put pressures on the prices charged for pharmaceutical products. Prescription drug reimbursement practices and the growth of managed care organizations, pharmaceutical benefit management groups and group buying organizations, as well as generic and therapeutic substitution (substitution of a different product for the same indication), could adversely affect Crescendo's business. Recently, legislative proposals have been made that could have the effect of requiring large discounts on the prices that pharmaceutical companies can charge for products for Medicare participants. A number of states are also considering this type of legislation. It is not clear whether, or when, any of these proposals might be adopted.

Revenues and Net Loss

Revenues consisting of net interest and investment income earned on invested funds, were approximately $13.9 million in 1998. For the period from inception (June 26, 1997) through December 31, 1997, revenues were approximately $4.1 million. For the period from inception (June 26, 1997) through December 31, 1998, revenues were approximately $18.0 million. Crescendo reported a net loss for the year ended December 31, 1998 of approximately $95.8 million or $19.29 per share. For the period from inception (June 26, 1997) through December 31, 1997, Crescendo reported a net loss of approximately $28.4 million or $11.33 per share. For the period from inception (June 26, 1997) through December 31, 1998, Crescendo reported a net loss of approximately $124.2 million or $29.96 per share. As Crescendo's funds are utilized under the Development Agreement and to pay the Technology Fee, lower cash balances will be available for investment and, therefore, interest and investment income is expected to decrease. Prior to ALZA's launch of Ditropan XL, Crescendo did not anticipate revenues other than from interest and investment income. Under the terms of the license agreement between Crescendo and ALZA for OROS oxybutynin, Crescendo will receive payments from ALZA based on worldwide net sales. For the first three years the rates will be 2.5%, 3.0%, and 3.0% of net sales, respectively; thereafter the rate is expected to be between 5% and 6%, based on the Development Costs to date and future anticipated Development Costs of the product to be paid by Crescendo.

Research and Development Expenses

Crescendo's research and development expenses increased to approximately $106.0 million in 1998, compared to approximately $32.3 million for the period from inception (June 26, 1997) through December 31, 1997. The substantial increase in 1998 reflects the first full year of operation. For the period from inception (June 26, 1997) through December 31, 1998, Crescendo recorded research and development expenses of approximately $138.3 million. These expenses related primarily to development of Crescendo Products through December 31, 1998 and the payment of the Technology Fee in an amount equal to $4.0 million and $10.7 million, during the period from inception (June 26, 1997) through December 31, 1997 and for the year ended December 31, 1998, respectively ($14.7 million from inception (June 26, 1997) through December 31, 1998). Crescendo's research and development expenses are expected to continue at approximately current levels in 1999, although quarterly fluctuations may occur. Crescendo expects to spend all Available Funds within the next two years. How quickly Available Funds are expended will depend upon the progress of Crescendo Products currently in development, and the development costs of any future Crescendo Products proposed by ALZA and accepted for development by Crescendo

Employees

On December 31, 1998, Crescendo had one employee, Dr. Gary L. Neil, its President and Chief Executive Officer. Other administrative services are currently provided to Crescendo by ALZA. See "Arrangements with ALZA -Services Agreement" above.

Item 2. Properties

Crescendo's corporate offices, which are leased from ALZA, are located in Palo Alto, California. Crescendo does not own any facilities.

Item 3. Legal Proceedings

None.

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position(s) with Registrant and Principal Occupations for Past Five Years
Gary L. Neil, PhD	58	President and Chief Executive Officer of Crescendo(since September 1997); President and Chief Executive Officer of TDC(1993 to September 1997); Executive Vice President, Wyeth-Ayerst Research(1990 to 1993).
David R. Hoffmann*	54	Vice President, Finance and Secretary of Crescendo(since June 1997); Vice President and Treasurer of ALZA(since 1994); other positions with ALZA, including Vice President, Finance and Vice President and Controller(since 1976).
Suzanne C. Martin*	49	Vice President, Research and Development of Crescendo(since June 1997); Vice President, Development Programs of ALZA(since 1994); other positions with ALZA, including Executive Director, Project Management and Senior Director of Research and Development Administration (since 1988).

* Mr. Hoffmann and Ms. Martin are employees of ALZA who provide services to Crescendo under its agreements with ALZA. They do not receive compensation from Crescendo.

PART II

Item 5.Market for Registrant's Common Equity and Related Stockholder Matters

Crescendo Class A Common Stock is traded on The Nasdaq Stock Market under the symbol "CNDO". Crescendo Class B Common Stock is not publicly traded. As of March 11, 1999, there were approximately 5,069 holders of record of Crescendo Class A Common Stock and one holder of Crescendo Class B Common Stock. Crescendo has not paid any dividends on its Common Stock. Crescendo's Restated Certificate of Incorporation prohibits the payment of dividends with Available Funds.

The quarterly high and low closing sales prices of Crescendo Class A Common Stock for 1998 and 1997 as quoted on The Nasdaq Stock Market were as follows:

	1998		1997*	
	High	Low	High	Low
First Quarter	$12 7/8	$11 1/2	$ -	$ -
Second Quarter	13 5/8	12 1/4	-	-
Third Quarter	13 3/16	12 1/4	12	10
Fourth Quarter	13 7/8	12 1/4	12 5/8	11 1/4

* Trading of Crescendo Class A Common Stock commenced in September 1997.

In July 1997, Crescendo sold 100 shares of Common Stock, par value $1.00, to ALZA at a purchase price of $10 per share. On September 4, 1997, the 100 shares of Common Stock were converted into 1,000 shares of Class B Common Stock, $1.00 par value. On September 29, 1997, Crescendo sold 4,965,470 shares of Class A Common Stock, $.01 par value, to ALZA at a purchase price of $300 million. On September 30, 1997, ALZA distributed all of the outstanding shares of Class A Common Stock to its stockholders and the holders of convertible subordinated debentures. The sales of Class A Common Stock and of Common Stock (now Class B Common Stock) to ALZA were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The proceeds from such sales are being used to fund Crescendo's operations, primarily its activities under the Development Agreement with ALZA and the Technology Fee.

Item 6.Selected Financial Data (in thousands, except per share amounts)

	Year ended December 31, 1998	Period from inception (June 26,1997) to December 31, 1997	Period from inception (June 26, 1997) to December 31, 1998
Revenues:			
Net interest and investment income	$ 13,912	$ 4,083	$ 17,995
Loss before taxes	(93,370)	(28,441)	(121,811)
Income taxes	2,425	-	2,425
Net loss	(95,795)	(28,441)	(124,236)
Net loss per Share	(19.29)	(11.33)	(29.96)
Total assets	193,911	286,587	

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

Results of Operations

Revenues, consisting of net interest and investment income earned on invested funds, were approximately $13.9 million for 1998. For the period from inception (June 26, 1997) to December 31, 1997, revenues were approximately $4.1 million. For the period from inception (June 26, 1997) through December 31, 1998, revenues were approximately $18.0 million. Crescendo reported a net loss for the year ended December 31, 1998 of approximately $95.8 million or $19.29 per share. For the period from inception (June 26, 1997) through December 31, 1997, Crescendo reported a net loss of approximately $28.4 million or $11.33 per share. For the period from inception (June 26, 1997) through December 31, 1998, Crescendo reported a net loss of approximately $124.2 million or $29.96 per share. As Crescendo's funds are utilized under the Development Agreement and to pay the Technology Fee, lower cash balances will be available for investment and, therefore, interest and investment income is expected to continue to decrease. Prior to ALZA's introduction of Ditropan XL, Crescendo did not anticipate revenues other than from interest and investment income. Under the terms of the license agreement between Crescendo and ALZA for OROS oxybutynin, Crescendo will receive payments from ALZA based on worldwide net sales of the product. For the first three years the rates will be 2.5%, 3.0%, and 3.0% of net sales, respectively; thereafter the rate is expected to be between 5% and 6%, based on the Development Costs of the product to date and anticipated Development Costs to be paid by Crescendo. However, there can be no assurance that revenue relating to commercialized Crescendo Products will be sufficient in the future to support Crescendo's operations once the Available Funds are exhausted, or that Crescendo Products under development will receive regulatory clearance or will be successfully commercialized.

Crescendo's research and development expenses increased to approximately $106.0 million in 1998, compared to approximately $32.3 million for the period from inception (June 26, 1997) through December 31, 1997. The substantial increase in 1998 reflects the first full year of operation. For the period from inception (June 26, 1997) through December 31, 1998, Crescendo incurred research and development expenses of approximately $138.3 million. These expenses related primarily to development of Crescendo Products through December 31, 1998 and include the payment of the Technology Fee in the amount equal to $4.0 million and $10.7 million, for the period from inception (June 26, 1997) through December 31, 1997 and for the year ended December 31, 1998, respectively, ($14.7 million from inception (June 26, 1997) through December 31, 1998). Crescendo's research and development expenses are expected to continue at approximately current levels in 1999, although quarterly fluctuations may occur.

General and administrative expenses for 1998 were approximately $1.3 million, and $0.3 million for the period from inception (June 26, 1997) to December 31, 1997. For the period from inception through December 31, 1998, general and administrative expenses were approximately $1.6 million. Expenses incurred by Crescendo under the Services Agreement with ALZA were approximately $224,000 in 1998 and $42,000 for the period from inception (June 26, 1997) through December 31, 1997. The increase in general and administrative expense is a result of the first full year of operation. Crescendo accrues on a monthly basis these expenses, which include (i) third party direct expenses paid by ALZA on behalf of Crescendo; (ii) actual salaries, including benefits, of ALZA's personnel performing services for Crescendo, and (iii) ALZA's standard administrative overhead charge calculated as a percent of salaries.

Income taxes payable for the year ended December 31, 1998 resulted from capitalization of research expenses for income taxes purposes only.

In its early years, the results of operations of Crescendo are expected to reflect primarily interest and investment income on the funds contributed by ALZA, and research and development expenses related to development of Crescendo Products and the Technology Fee. Crescendo's net loss for 1998 was $95.8 million, or $19.29 per share, compared to $28.4 million, or $11.33 per share from inception (June 26, 1997) through December 31, 1997. The substantial increase reflects Crescendo's first full year of operations. Crescendo is expected to continue to incur significant net losses in the next two years, as product development expenses under its agreements with ALZA are expected to continue to exceed investment income and royalty payments.

Year 2000 Readiness

Crescendo is reliant upon the QuickBooks Pro Version 5.0 software application to record its business activities. This accounting software has been represented by the manufacturer to be Year 2000 compliant.

In addition to its internal system, Crescendo is also reliant upon the capabilities of the computer systems of its vendors, contractors (including ALZA for administrative functions under the Services Agreement and for contractual research and development), U.S. government agencies, and its investment managers. In order to determine the level of Year 2000 compliance of vendors, contractors and investment managers, Crescendo has initiated communications with third parties, including ALZA, with whom it has material direct business relationships. If any of these third parties experience failures in their computer systems due to Year 2000 non-compliance, it could materially affect Crescendo's investment portfolio, ability to engage in normal business activities and, in particular, the status of certain product development activities being conducted by ALZA. Although these risks are outside of Crescendo's control, Crescendo will continue to assess the responses it receives from third parties in an effort to address any potential non-compliance issues. ALZA has advised Crescendo that its operations are largely Year 2000 compliant, and that it expects to be fully compliant by the end of 1999.

Crescendo has not incurred any material costs in connection with its Year 2000 assessment and no conversion of its internal system is required. Due to the general uncertainty surrounding the Year 2000 readiness of third parties upon whom Crescendo relies, Crescendo is unable to determine at this time whether or to what extent Year 2000 failures will have a material impact on its operations.

Liquidity and Capital Resources

On September 29, 1997, ALZA contributed $300 million in cash to Crescendo in exchange for the Crescendo Shares. On September 30, 1997, ALZA distributed the Crescendo Shares to holders of ALZA common stock and ALZA's outstanding convertible subordinated debentures, and Crescendo commenced operations. The funds contributed by ALZA, plus investment income earned thereon, are being used primarily to fund the development of Crescendo Products and to conduct related activities. Funds not immediately required for development activities are invested in low-risk securities.

At December 31, 1998, Crescendo had cash, cash equivalents and short-term investments of approximately $111.7 million. As Crescendo's funds continue to be utilized under the Development Agreement and to pay the Technology Fee to ALZA, increasingly lower cash balances will be available for investment.

Based on anticipated spending levels for the continued development of all Crescendo Products currently under development, it is expected that Crescendo's funds for product development will be exhausted within the next two years. At that time, product development funding by Crescendo will cease. However, several factors could impact the level and timing of Crescendo funding, including the addition of any new Crescendo Products, the discontinuation of the development of any Crescendo Products, any commercial arrangements between ALZA and other companies which would cause ALZA to exercise its License Option with respect to any Crescendo Product, any change in the number of projects advancing to or continuing in later stages of development or any adjustments in the rate of spending on products currently in development.

When Crescendo's Available Funds are exhausted, certain critical timetables will be triggered. First, ALZA's Purchase Option will terminate on the 60th day after Crescendo provides ALZA with a statement that, as of the end of any calendar month, there are less than $2.5 million of Available Funds remaining, accompanied by a report of Crescendo's independent auditors. In addition, ALZA has the right, for 30 days after expiration of the Purchase Option, to license any or all Crescendo Products which have not yet been licensed, on a product-by-product and country-by-country basis. ALZA is under no obligation to exercise the Purchase Option, or the License Option with respect to any or all Crescendo Products, and will do so only if ALZA determines that it is in the best interests of ALZA and its stockholders at the time the decision is made. In the event that ALZA does not exercise the Purchase Option, or the License Option for all Crescendo Products, after Available Funds are exhausted, Crescendo will not have funds to continue or complete development of any remaining Crescendo Products. It is not likely that Crescendo would be able to raise any additional funds during the period when ALZA's Purchase Option is outstanding, because of the existence of such option. After the expiration of the Purchase Option, if it is not exercised, Crescendo's ability to obtain additional funding will be subject to the perception of those investors with funds available, or the public markets, of the value of Crescendo's portfolio.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Crescendo's exposure to market risk for changes in interest rates relates primarily to Crescendo's investment portfolio and long-term debt obligations. Crescendo does not use derivative financial instruments in its investment portfolio. Crescendo's investment policy requires investments with high credit quality issuers and limits the amount of credit exposure to any one issuer. The primary objective of Crescendo's investment activities is to preserve principal.

The table below presents principal amounts and related weighted-average interest rates by year of maturity for Crescendo's investment portfolio and debt obligations:

(in millions)	1999	2000	2001	2002	Thereafter	Total	Fair Value
Cash and cash equivalents							
Fixed Rate	$54.3					$54.3	$54.3
Average Rate	5.41%					5.41%	
Short-term Investments							
Fixed Rate	$57.4					$57.3	$57.4
Average Rate	5.94%					5.94%	
Long-term Investments							
Fixed Rate	-	$25.7	$18.8	$30.2	$4.3	$79.0	$79.4
Average Rate	-	6.14%	6.09%	6.79%	5.30%	6.33%	
Total Investments							
Securities	$111.6	$25.7	$18.8	$30.2	$4.3	$190.6	$191.1
Average Rate	5.68%	6.14%	6.09%	6.79%	5.30%	5.95%	

Item 8. Financial Statements and Supplementary Data

Crescendo Pharmaceuticals Corporation
(a development stage company)

Statement of Operations
(in thousands, except per share amounts)

	Year ended 1998	Period from inception (June 26, 1997) to December 31, 1997	Period from inception (June26, 1997) to December 31, 1998
Revenues:			
Net interest and investment income	$ 13,912	$ 4,083	$ 17,995
Expenses:			
Research and development performed under contract with ALZA Corporation (a related party)	105,966	32,279	138,245
General and administrative	1,316	245	1,561
Total expenses	107,282	32,524	139,806
Loss before taxes	(93,370)	(28,441)	(121,811)
Income taxes	2,425	-	2,425
Net loss	$(95,795)	$ (28,441)	$ (124,236)
Net loss per common share			
Basic	$(19.29)	$ (11.33)	$ (29.96)
Diluted	$(19.29)	$ (11.33)	$ (29.96)

See accompanying notes.

Crescendo Pharmaceuticals Corporation
(a development stage company)

Balance Sheet

December 31,
(in thousands, except per share amounts)

	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,326	$ 179,971
Short-term investments	57,410	29,601
Interest receivable	1,861	967
Prepaid expenses and other current assets	627	110
Total current assets	114,224	210,646
Employee loan	300	300
Long-term investments	79,387	75,638
Total assets	$ 193,911	$ 286,587
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Payable to ALZA Corporation (a related party)	$ 17,596	$ 15,068
Accrued liabilities	77	40

Total current liabilities	17,673	15,108
Stockholders' equity:		
Class A Common Stock, $0.01 par value, 6,000 shares authorized; 4,965 issued and outstanding	50	50
Class B Common Stock, $1.00 par value, 1 shares authorized, issued and outstanding	1	1
Additional paid-in capital	299,949	299,949
Accumulated other comprehensive income (loss)	474	(80)
Deficit accumulated during development stage	(124,236)	(28,441)
Total stockholders' equity	176,238	271,479
Total liabilities and stockholders' equity	$ 193,911	$ 286,857

See accompanying notes.

Crescendo Pharmaceuticals Corporation
(development stage company)
Statement of Stockholders' Equity
(in thousands, except number of shares and per share amounts)

	CLASS A COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	ACCUMULATED DEFICIT DURING DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY
Issuance of 4,965,470 shares of Class A Common Stock for approximately $60.42 per share per share for cash to ALZA in Sept 1997	$ 50	$ -	$ 299,949	$ -	$ -	$ 299,999
Conversion of Common Stock for $10 per share for cash to ALZA and its subsequent conversion in September 1997 into 1000 shares of Class B Common Stock	-	1	-	-	-	1
Comprehensive loss						
Net loss	-	-	-	-	(28,441)	(28,441)
Net change in unrealized loss on available-for-sale securities	-	-	-	(80)	-	(80)
Total Comprehensive loss	-	-	-	-	-	(28,521)
Balance, Dec 31, 1997	50	1	299,949	(80)	(28,441)	271,479
Comprehensive loss						
Net loss	-	-	-	-	(95,795)	(95,795)
Net change in unrealized gain on available-for-sale securities	-	-	-	554	-	554
Total comprehensive loss						(95,241)
Balance, Dec 31, 1998	$50	$1	$299,949	$ 474	$(124,236)	$ 176,238

Crescendo Pharmaceuticals Corporation
(a development stage company)

Statement of Cash Flows
Increases (Decreases) in Cash and Cash Equivalents
(in thousands)

	Year ended December 31, 1998	Period from inception (June 26,1997)to December 31,1997	Period from inception (June 26, 1997)to December 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (95,795)	$ (28,441)	$ (124,236)
Adjustments to			

reconcile net loss to net cash used in operating activities:			
Increase in assets:			
Interest receivable	(894)	(967)	(1,861)
Prepaid expenses and other assets	(517)	(110)	(627)
Increase in liabilities:			
Payable to ALZA Corporation	2,528	15,068	17,596
Accrued liabilities	37	40	77
Total adjustments	1,154	14,031	15,185
Net cash used in operating activities	(94,641)	(14,410)	(109,051)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(111,299)	(105,319)	(216,618)
Sales of available-for sale securities	80,295	-	80,295
Employee loan, long-term	-	(300)	(300)
Net cash used in investing activities	(31,004)	(105,619)	(136,623)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock to ALZA Corporation	-	300,000	300,000
Net cash provided by financing activities	-	300,000	300,000
Net increase (decrease) in cash and cash equivalents	(125,645)	179,971	54,326
Cash and cash equivalents at beginning of period	179,971	-	-
Cash and cash equivalents at end of period	$ 54,326	$ 179,971	$ 54,326

See accompanying notes.

Crescendo Pharmaceuticals Corporation
(a development stage company)

Notes to Financial Statements

Note 1. Basis of Presentation and Significant Accounting Policies

Crescendo was incorporated in Delaware on June 26, 1997 and commenced operations on September 30, 1997. Crescendo was formed for the purpose of selecting and developing human pharmaceutical products and commercializing such products, most likely through licensing to ALZA. Since its formation, Crescendo's principal activity has been conducting product development under its agreements with ALZA. In accordance with generally accepted accounting principles, Crescendo is considered a development stage company.

Accounting for Revenues and Expenses

Prior to December 31, 1998, Crescendo's revenue consisted solely of interest and investment income. Beginning in the first quarter of 1999, Crescendo expects to derive revenue from the sale of one Crescendo Product under a license agreement with ALZA. Royalties will be recognized in the period in which earned, i.e. the period in which product sales are made by third parties from whom Crescendo receives, directly or indirectly, product royalties.

Crescendo has incurred and expects to incur most of its expenses under its agreements with ALZA. Development Costs paid to ALZA under a Development Agreement and amounts paid to ALZA under a Services Agreement are recorded as research and development expenses and general and administrative expenses, respectively, and are recognized on an accrual basis as incurred. These expenses are recorded in the period in which services have been provided by ALZA to Crescendo or in which expenses have been incurred by ALZA on behalf of Crescendo. See Note 4 for a description of the agreements between Crescendo and ALZA. The Technology Fee paid to ALZA under a Technology License Agreement is recorded monthly, as incurred, as research and development expense.

Investment Risk

Crescendo invests excess cash in money market and fixed income securities of banks and companies with strong credit ratings, from a variety of industries, and in U.S. government obligations. These securities typically bear minimal risk and Crescendo has not experienced any losses on its investments due to institutional failure or bankruptcy. Crescendo's investment policy is designed to limit exposure with any one institution.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash balances and investments with maturities of three months or less at the time of purchase.

Short-term investments include commercial paper and other highly liquid investments with maturities less than one year. Cash, cash equivalents and short-term investments are stated at their fair value.

Segment Information

Effective January 1, 1998, Crescendo adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 superseded FASB Statement No. 14, Financial Reporting for Segments of a Business Enterprise. SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers.

Crescendo has organized its business in one operating segment, since Crescendo's only business is to engage in pharmaceutical product development and related activities under its agreements with ALZA. At December 31, 1998, all of Crescendo's revenue was derived from its investments in the United States.

Comprehensive Income (Loss)

Effective January 1, 1998, Crescendo adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") which establishes standards for reporting comprehensive income and its components. Total comprehensive income (loss) includes net loss plus other comprehensive income, which for Crescendo comprises of unrealized gains or losses on available-for-sale securities. The adoption of SFAS 130 had no impact on Crescendo's results of operations or financial condition.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standard No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities", which will be effective for our fiscal year 2000. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments imbedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. Crescendo believes the adoption of SFAS 133 will not have a material effect on the financial statements.

Note 2. Investments

Crescendo has classified its entire investment portfolio, including cash equivalents of approximately $53.6 million and $179.9 million at December 31, 1998 and 1997, respectively, as available-for-sale. Investments in the available-for-sale category are generally carried at fair market value with unrealized gains and losses recorded as a separate component of stockholders' equity. At December 31, 1998, net unrealized gains on available-for-sale securities were $0.5 million. At December 31, 1997, net unrealized losses on available-for-sale securities were not material. The cost of securities when sold is based upon specific identification. Realized gains for the year ended December 31, 1998 were $0.2 million and were not material for the period from inception (June 26, 1997) through December 31, 1997.

The following is a summary of Crescendo's investment portfolio(in thousands):

December 31, 1998 Available-for-Sale Securities

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$57,602	$ 228	$ -	$57,830
Collateralized mortgage obligations and asset backed securities	32,364	85	(310)	32,139
Corporate debt securities	52,896	472	-	53,368
Money market funds	47,091	-	-	47,091
	$189,953	$ 785	$(310)	$190,428

December 31, 1997 Available-for-Sale Securities

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$76,248	$ 98	$(41)	$76,305

Collateralized mortgage obligations and asset backed securities	24,681	6	(156)	24,531
Corporate debt securities	98,432	41	(28)	98,445
Money market funds	85,833	-	-	85,833
	$285,194	$ 145	$(225)	$285,114

The amortized cost and estimated fair value of securities at December 31, 1998 and 1997, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	1998		1997	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$110,905	$111,041	$209,431	$209,476
Due after one year through three years	44,460	44,731	35,497	35,513
Due after three years through five years	34,588	34,656	40,266	40,126
	$189,953	$190,428	$285,194	$285,114

Note 3. Per Share Information

Basic earnings per share is calculated by dividing net loss by the weighted average common shares outstanding for the period. Diluted loss per share is calculated by dividing net loss by the weighted average common shares outstanding for the period plus the dilutive effect of stock options.

The following table sets forth the computation of Crescendo's basic and diluted loss per share (in thousands, except per share amounts):

	Year ended December 31, 1998	Period from inception (June 26, 1997)to December 31, 1997	Period from inception (June 26, 1997) to December 31,1998
NUMERATOR:			
Basic and Diluted Net loss	$(95,795)	$(28,441)	$(124,236)
DENOMINATOR:			
Basic and Diluted Weighted average shares outstanding	4,966	2,511	4,148
Basic net loss per share	$(19.29)	$(11.33)	$(29.96)
Diluted net loss per share	$(19.29)	$(11.33)	$(29.96)

Outstanding options to purchase 100,000 shares of Crescendo Class A Common Stock would have been anti-dilutive in 1997 and 1998 and for the period from inception through December 31, 1998, and they were therefore excluded from the diluted per share calculations.

Note 4. Arrangements with ALZA Corporation

On September 29, 1997, ALZA contributed $300 million in cash to Crescendo. On September 30, 1997, all of the Crescendo Shares, (a total of 4,965,470 shares), were distributed to the holders of ALZA common stock and ALZA's convertible subordinated debentures. Crescendo Shares are traded on The Nasdaq Stock Market under the symbol "CNDO." ALZA holds 1,000 shares of Crescendo Class B Common Stock.

In connection with ALZA's contribution to Crescendo and the distribution of Crescendo Shares, Crescendo and ALZA entered into a number of agreements, including a Development Agreement, Technology License Agreement, License Option Agreement and Services Agreement, discussed below.

Crescendo and ALZA have a Development Agreement pursuant to which ALZA conducts product development and related activities on behalf of Crescendo under work plans and cost estimates which have been proposed by ALZA and approved by Crescendo. Crescendo is required to utilize the cash initially contributed to it by ALZA plus interest thereon, less Crescendo's administrative expenses, the Technology Fee paid to ALZA and reserves of up to $2 million to conduct activities under the Development Agreement.

Under the Development Agreement, Crescendo initially agreed to fund the development of seven products, the development of which was commenced by ALZA and Therapeutic Discovery Corporation ("TDC"), from August 25, 1997, the date on which TDC ceased funding such products, through October 31, 1997. As of December 31, 1998, three of the seven Initial Products (OROS oxybutynin, DUROS leuprolide and OROS methylphenidate) remained in active development and/or had been licensed by ALZA. For the year ended December 31, 1998 and the period from inception (June 26, 1997) through December 31, 1997, Crescendo recorded research and development expenses of $106.0 million and $32.3 million, respectively. For the period from inception (June 26, 1997) through December 31, 1998, Crescendo recorded research and development expenses of approximately $138.2

million, including a Technology Fee of $14.7 million. These expenses related primarily to development of the Initial Products through December 31, 1998.

Crescendo and ALZA have a Technology License Agreement pursuant to which ALZA has granted to Crescendo a worldwide license to use ALZA technology solely to select and develop the Crescendo Products, to conduct related activities, and to commercialize such products. In exchange for the license to use existing ALZA technology relating to the seven products initially under development by Crescendo and ALZA, Crescendo pays a Technology Fee to ALZA, payable monthly over a period of three years, in the amount of $1 million per month for the first 12 months following the distribution of Crescendo Shares, $667,000 per month (beginning in September 1998) for the following 12 months and $333,000 per month for the next 12 months. The Technology Fee will no longer be payable at such time as fewer than two of the Initial Products are being developed by Crescendo and/or have been licensed by ALZA pursuant to the License Option. Crescendo recorded a Technology Fee expense of $10.7 and $4.0 million for the year ended December 31, 1998 and for the period from inception (June 26, 1997) through December 31, 1997, respectively, which is included in research and development expenses. Three of the seven initial products were in active development and/or had been licensed at December 31, 1998.

Pursuant to the License Option Agreement entered into by Crescendo and ALZA, Crescendo has granted ALZA an option to acquire a license to each Crescendo Product. The License Option for any such Crescendo Product is exercisable on a country-by-country basis at any time until (i) with respect to the United States, 30 days after clearance by the FDA to market such Crescendo Product in the United States and (ii) with respect to any other country, 90 days after the earlier of (a) clearance by the appropriate regulatory agency to market the Crescendo Product in such country and (b) clearance by the FDA to market the Crescendo product in the United States. The License Option will expire, to the extent not previously exercised, 30 days after the expiration of ALZA's Purchase Option, described below. If and to the extent the License Option is exercised as to any Crescendo Product, ALZA will acquire a perpetual, exclusive license (with the right to sublicense) to develop, make, have made and use the licensed product, and to sell and have sold the licensed product in the country or countries as to which the License Option is exercised.

Under the License Agreement for each licensed product, ALZA will make payments to Crescendo with respect to the licensed product equal to 1% of net sales of the licensed product by ALZA and its sublicensees, distributors and marketing partners, plus an additional 0.1% of such net sales for each full $1 million of Development Costs of the licensed product that have been paid by Crescendo, not to exceed 2.5% of net sales in the first year a licensed product is sold in a major market country, and not to exceed 3% for the following two years. ALZA has the right to buy out Crescendo's right to receive payments for any or all licensed products on a country-by-country or global basis in accordance with a formula set forth in the License Agreement.

In December 1998, ALZA exercised its option to obtain a worldwide license to OROS oxybutynin (Ditropan XL) from Crescendo and announced a agreement with Synthelabo for the OROS oxybutynin product in Europe. Under the terms of the license agreement between Crescendo and ALZA, Crescendo will receive payments from ALZA based on worldwide net sales of the product. For the first three years the rates will be 2.5%, 3.0%, and 3.0% of net sales, respectively; thereafter the rate is expected to be between 5% and 6%, based on the Development Costs of the product to date and future anticipated Development Costs to be paid by Crescendo.

Pursuant to Crescendo's Restated Certificate of Incorporation, ALZA has a Purchase Option which gives ALZA the right to purchase all (but not less than all) of the Crescendo Shares. The Purchase Option is exercisable by written notice to Crescendo at any time until January 31, 2002, provided that such date will be extended for successive six month periods if, as of any July 31 or January 31 beginning with July 31, 2001, Crescendo has not paid (or accrued expenses for) at least 95% of Available Funds pursuant to the Development Agreement. In any event, the Purchase Option will terminate on the 60th day after Crescendo provides ALZA with a statement that, as of the end of any calendar month, there are less than $2.5 million of Available Funds remaining, accompanied by a report of Crescendo's independent auditors.

If the Purchase Option is exercised, the exercise price will be the greatest of:

(a)(i) 25 times the actual payments made by or due from ALZA to Crescendo under the Development Agreement and the License Agreement for any product (and, in addition, such payments as would have been made by or due from ALZA to Crescendo if ALZA had not previously exercised its payment buy-out option with respect to any such payments) for the four calendar quarters immediately preceding the quarter in which the Purchase Option is exercised (provided, however, that for any product which has not been commercially sold during each of such four calendar quarters, the portion of the exercise price for such product will be 100 times the average of the quarterly payments made by or due from ALZA to Crescendo for each of such calendar quarters during which such product was commercially sold) less (ii) any amounts previously paid to exercise any payment buy-out option;

(b) the fair market value of one million shares of ALZA common stock;

(c) $325 million less all amounts paid by or due from Crescendo under the Development Agreement to the date the Purchase Option is exercised; and

(d) $100 million.

In each case, the amount payable as the Purchase Option exercise price will be reduced to the extent, if any, that Crescendo's liabilities at the time of exercise (other than liabilities under the Development Agreement, the Technology License Agreement, and the Services Agreement described below) exceed Crescendo's cash and cash equivalents, and short-term and long-term investments (excluding the amount of Available Funds remaining at such time). ALZA may pay the exercise price in cash, in ALZA common stock or in any combination of cash and ALZA common stock.

Crescendo and ALZA have a Services Agreement pursuant to which ALZA provides certain administrative services, including accounting and legal services, to Crescendo. Specified charges for such services are generally intended to allow ALZA to recover direct costs including fully allocated overheads of providing the services, plus all out of pocket costs and expenses, but without any profit. The Services Agreement originally had a one year term and is renewed automatically for successive one year terms during the term of the Development Agreement, unless terminated by Crescendo at any time upon 60 days' written notice. General and administrative expenses incurred under this agreement for the year ended December 31, 1998 and the period from inception (June 16, 1997) through December 31, 1997 were approximately $224,000 and $42,000, respectively, and approximately $266,000 for the period from inception (June 26, 1997) through December 31, 1998. Crescendo accrues on a monthly basis these expenses, which include (i) third party direct expenses paid by ALZA on behalf of Crescendo; (ii) actual salaries, including benefits, of ALZA's personnel performing services for Crescendo and (iii) ALZA's standard administrative overhead charge, calculated as a percent of salaries.

At December 31, 1998, the amount payable to ALZA was approximately $17.6 million. This payable is comprised of approximately $17.4 million under the Development Agreement and approximately $0.2 million under the Services Agreement. At December 31, 1997, the amount payable to ALZA was approximately $15.1 million. This payable comprised of approximately $15.0 million under the Development Agreement and approximately $0.1 million under the Services Agreement. The Technology License Fee is paid in the month it is accrued.

Note 5. Stock Option Plan

Crescendo has a stock option plan under which 200,000 shares of Crescendo Class A Common Stock have been reserved for issuance to employees, consultants and directors. During the period from inception (June 26, 1997) through December 31, 1997, options to purchase 50,000 shares were granted to Crescendo's president and chief executive officer at an exercise price of $11.00 per share. Each of the five remaining members of Crescendo's Board of Directors were granted options to purchase 10,000 shares at exercise prices ranging from $11.28 to $11.50 per share. All outstanding options have an exercise price equal to the fair market value of the Crescendo Class A Common Stock on the date of grant. The options are exercisable in four equal annual installments beginning one year after the date of grant and expire ten years after the date of grant.

Financial Accounting Standards Board SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), prescribes a fair value method of accounting for stock options. SFAS 123 gives companies a choice of recognizing related compensation expense by adopting the new fair value method or continuing to measure compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Crescendo has elected to follow APB 25 in accounting for its stock options.

Had compensation expense for stock options been determined using the fair value method in accordance with SFAS 123, Crescendo's pro forma net loss and net loss per share would have been as follows:

(In thousands, except per share amounts)	Year ended December 31, 1998	Period from inception (June 26, 1997)to December 31, 1997	Period from inception (June 26,1997)to December 31, 1998
Net loss			
As reported	$ (95,795)	$ (28,441)	$ (124,236)
Pro forma	(95,919)	(28,471)	(124,390)
Net loss per share (basic and diluted)			
As reported	$ (19.29)	$ (11.33)	$ (29.96)
Pro forma	(19.32)	(11.34)	(29.98)

The historical proforma impact of applying the fair value method is not representative of the impact that may be expected in the future due to additional options that may be granted in the future.

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	1997
Risk-free interest rate	6.0%
Expected dividend yield	0
Expected volatility	23.0%
Expected life (in years)	3.5

No options were granted during the year ended December 31, 1998.

Changes in the assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of Crescendo's stock options.

A summary of Crescendo's stock option activity, and related information for year ended 1998 and the period ended 1997, follows:

	Options (in thousands) 1998	Options (in thousands) 1997	Weighted Average Exercise Price 1998	Weighted Average Exercise Price 1997
Outstanding-beginning of period	100	-	$ -	$ -
Granted	-	100	11.23	11.23
Outstanding-end of period	100	100	$ 11.23	$11.23
Exercisable-end of year	25	-	$ 11.23	$ -

Weighted-average fair value of options granted during 1997 $2.93

At December 31, 1998, 100,000 shares were available for grant under Crescendo's Stock Option Plan. At December 31, 1998, the weighted average remaining contractual life of the outstanding options was 8.78 years.

Note 6. Dividends

Crescendo's restated certificate of incorporation prohibits the payment of dividends from Available Fund.

Note 7. Income Taxes

The provision for income taxes consists of:

	Year ended December 31, 1998	Period from inception (June 26, 1997)to December 31, 1997	Period from inception (June 26, 1997)to December 31, 1998
(in thousands)			
Taxes currently payable:			
Federal	$1,919	$ -	$1,919
State	506	-	506
Total	$2,425	$ -	$2,425

A reconciliation of the provision for income taxes to the federal statutory tax rate (35%) follows:

	Year ended December 31, 1998	Period from inception (June 26, 1997)to December 31, 1997	Period from inception (June 26, 1997)to December 31, 1998
(in thousands)			
Expected tax benefit statutory rate	$(32,680)	$(9,954)	$(42,634)
State taxes	(5,340)	(1,621)	(6,961)
Tax effect of capitalized expenses which provide no current tax benefit	40,445	11,575	52,020
Total	$ 2,425	$ -	$ 2,425

Deferred tax assets consist primarily of research expenditures capitalized for income taxes purposes only. Deferred tax assets of approximately $52 million and $11.5 million at December 31, 1998 and 1997, respectively, have been fully offset by a valuation allowance because of Crescendo's lack of earnings history. The valuation allowance for deferred tax assets increased by $40.4 million during the year ended December 31, 1998 and $11.6 million for the period from inception (June 26, 1997) to December 31, 1997.

Note 8. Quarterly Financial Data (unaudited)

The net loss and loss per share for the six quarters beginning with the quarter ended September 30, 1997 and ending with the quarter ended December 31, 1998 were, sequentially, approximately $6.3 million and $113.53 per share, $22.2 million and $4.46 per share, $17.9 million and $3.60 per share, $25.6 million and $5.16 per share, $25.0 million and $5.03 per share, and $27.3 million and $5.50 per share.

THE BOARD OF DIRECTORS AND STOCKHOLDERS
CRESCENDO PHARMACEUTICALS CORPORATION

We have audited the accompanying balance sheets of Crescendo Pharmaceuticals Corporation (a development stage company) as of December 31, 1998 and 1997, and the related statements of operations, stockholders' equity and cash flows for the year ended December 31, 1998 and for the periods from inception (June 26, 1997) to December

31, 1997 and December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crescendo Pharmaceuticals Corporation (a development stage company) at December 31, 1998 and 1997, and the results of its operations and its cash flows for the year ended December 31, 1998 and for the periods from inception (June 26, 1997) to December 31, 1997 and December 31, 1998, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Palo Alto, California
February 5, 1999

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

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

Crescendo incorporates by reference the information concerning its directors set forth under the heading "Election of Directors" on pages 1 through 4 in Crescendo's definitive proxy statement dated March 31, 1999 for its Annual Meeting of Stockholders to be held on May 6, 1999 (the "Proxy Statement"). Information concerning Crescendo's executive officers appears at the end of Part I of this Annual Report on page 14. Crescendo also incorporates by reference the information set forth under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" on Page 5 of the Proxy Statement.

Item 11. Executive Compensation

Crescendo incorporates by reference the information "Summary Compensation Table", "1998 Option Grants" and "1998 Aggregated Option Exercises and Fiscal Year End Option Values" set forth under "Executive Compensation" on pages 4 and 5 in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Crescendo incorporates by reference the information set forth under the heading "Beneficial Stock Ownership" on pages 8 and 9 in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions

Crescendo incorporates by reference the information set forth under the heading "Certain Transactions" on page 10 in the Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as part of this Annual Report on Form 10-K:

1. Financial Statements (See Item 8)

2. Financial Statement Schedules (None)1

3. Exhibits

3.1 Restated Certificate of Incorporation of Crescendo, as corrected, filed as Exhibit 10.1 to ALZA Corporation's Form 10-Q (File No. 1-6247) dated November 6, 1997.2

3.2 Bylaws of Crescendo, dated June 29, 1997, filed as Exhibit 3.2 to Crescendo's Form S-1 (File No. 333-31281) dated September 5, 1997.2

10.1 Services Agreement between Crescendo and ALZA, filed as Exhibit 10.1 to Crescendo's Form 10-Q (File No. 0-22927) dated November 14, 1997.2

10.2 Technology License Agreement between Crescendo and ALZA, filed as Exhibit 10.2 to ALZA's Form 10-Q (File No. 1-6247) dated November 6, 1997.2

10.3 Development Agreement between Crescendo and ALZA, filed as Exhibit 10.3 to ALZA's Form 10-Q (File No. 1-6247) dated November 6, 1997.2

10.4 License Option Agreement between Crescendo and ALZA, filed as

Exhibit 10.4 to ALZA's Form 10-Q (File No. 1-6247) dated November 6, 1997.2

10.5 1997 Stock Option Plan, filed as Exhibit 10.6 to Crescendo's Form S-1 (File No. 333-31281) dated September 5, 1997.2,3

10.6 License Agreement between Crescendo and ALZA Corporation concerning OROS-registered trademark- oxybutynin dated December 16, 1998.

27 Financial Data Schedule

(b) No reports on Form 8-K were filed during the period.

(1) Schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements, including the notes thereto.
(2) Incorporated by reference.
(3) A management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date:____3/26/99_________ Crescendo Pharmaceuticals Corporation

By __/s/_ Dr. Gary L. Neil _
Dr. Gary L. Neil
President and
Chief Executive Officer

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.

__/s/ Dr. Gary L. Neil _______
Dr. Gary L. Neil
President, Chief Executive Officer and Director
Date:____3/26/99_____

__/s/ David R. Hoffmann ____
David R. Hoffmann
Vice President, Finance and Principal Financial and Accounting Officer
Date:____3/26/99_____

__/s/ Dr. Terrence F. Blaschke
Dr. Terrence F. Blaschke
Director
Date:____3/26/99_____

/s/ Dr. Gerald J. Papariello
Dr. Gerald J. Papariello
Director
Date:____3/26/99_____

__/s/ Jerry T. Jackson ______
Jerry T. Jackson
Director
Date:____3/26/99_____

__/s/ Ley S. Smith _________
Ley S. Smith
Director
Date:____3/26/99_____

__/s/Dr. M. David MacFarlane_
Dr. M. David MacFarlane
Director
Date:____3/26/99_____

This License Agreement (the "Agreement") is made this 16th day of December, 1998 by and between ALZA Corporation, a Delaware corporation ("ALZA"), and Crescendo Pharmaceuticals Corporation ("Crescendo"), a Delaware corporation.

BACKGROUND

A. Crescendo and ALZA have entered into a License Option Agreement and certain other agreements dated as of September 5, 1997.

B. Section 2 of the License Option Agreement provides for a license, the terms of which are to be set forth herein.

Now, therefore, the parties agree as follows:

1. Definitions.

For purposes of this Agreement, the following terms shall have the meanings set forth below:

1.1 "Affiliate" shall mean a corporation or any other entity that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the designated party. "Control" shall mean ownership of at least 50% of the shares of stock entitled to vote for the election of directors in the case of a corporation, and at least 50% of the interests in profits in the case of a business entity other than a corporation.

1.2 "Development Agreement" shall mean the Development Agreement between ALZA and Crescendo dated as of September 5, 1997.

1.3 "Development Cost(s)" shall mean the cost of activities undertaken pursuant to the Development Agreement with respect to the Licensed Product, determined in accordance with Exhibit A thereto.

1.4 "Infringing Product" shall mean any product sold by a third party, other than pursuant to an agreement with ALZA, (i) which incorporates the same therapeutic agent or agents as incorporated in the Licensed Product and (ii) in the case of a Licensed Product using an ALZA drug delivery system, which incorporates a delivery system substantially similar to that incorporated in the Licensed Product, and (iii) which infringes or is alleged to infringe any patent or patents owned by, licensed to or controlled by ALZA.

1.5 "License Option Agreement" shall mean the License Option Agreement between ALZA and Crescendo dated as of September 5, 1997.

1.6 "Licensed Product" shall mean the product listed on Attachment A hereto.

1.7 "Major Market Country" shall mean any of the following countries: the United States, France, Germany, Italy, Japan or the United Kingdom.

1.8 "Net Sales" shall mean the total amount invoiced in United States dollars (or converted thereto in accordance with Section 5.2 hereof) on sales of a Licensed Product by ALZA (or its Affiliates) or any ALZA sublicensee, distributor or marketing partner (or its Affiliates) to unrelated third parties such as wholesalers, hospitals and others, in bona fide arm's-length transactions, less the following deductions, in each case related specifically to the Licensed Product and actually allowed and taken and not otherwise recovered by or reimbursed to ALZA (or its Affiliates) or such sublicensee, distributor or marketing partner (or its Affiliates): (i) trade, cash and quantity discounts; (ii) taxes on sales (such as sales or use taxes) to the extent added to the sales price and set forth separately as such in the total amount invoiced; (iii) freight, insurance and other transportation charges to the extent added to the sales price and set forth separately as such in the total amount invoiced; and (iv) amounts repaid or credited by reason of rejections, defects or returns or because of retroactive price reductions, chargebacks or rebates under government programs. Net Sales shall also include the fair market value of all other consideration received (a) by ALZA (or its Affiliates) with respect to sales by them of the Licensed Product to unrelated third parties from persons other than sublicensees, distributors or marketing partners (or their Affiliates) or (b) by any sublicensee, distributor or marketing partner (or its Affiliates) with respect to their sales of the Licensed Product to unrelated third parties, in each case whether such consideration is in cash, payment in kind, exchange or other form.

1.9 "Territory" shall mean the country or countries listed on Attachment B hereto, as amended from time to time by the parties in connection with the exercise by ALZA of its option for additional countries under the License Option Agreement or the surrender by ALZA of its rights to commercialize the Licensed Product in any country or countries.

2. Grant of License.

2.1 Grant. Crescendo hereby grants to ALZA an exclusive, perpetual license, with the right to sublicense, to develop, make, have made and use the Licensed Product and to sell and have sold the Licensed Product in the Territory. ALZA agrees to use diligent efforts to conduct or have conducted any remaining activities necessary to complete the development of the Licensed Product in the Territory through regulatory clearance to market the Licensed Product in the Territory. Such activities will be undertaken at no cost to Crescendo, unless Crescendo agrees otherwise in writing. Promptly after regulatory clearance, ALZA shall commence and continue to use diligent efforts to commercialize the Licensed Product in each Major Market Country of the Territory through the manufacture and sale or the sublicensing of the Licensed Product, devoting to the Licensed Product the same resources as other pharmaceutical companies of similar size devote to products with similar market potential and with similar relative importance to their product portfolios. ALZA may use reasonable business discretion in the allocation of its technological and monetary resources in performing its obligations hereunder, taking into account not only the Licensed Product but also activities for its own account and its obligations under its other agreements with third parties. Crescendo acknowledges that ALZA will continue to own and have the right to use any clinical supplies, materials and other assets purchased, manufactured or developed for use in the development of such Licensed Product, without any additional payment to or reimbursement of Crescendo.

2.2 No Other Commercialization. ALZA shall not commercialize the Licensed Product in any country except pursuant to this Agreement.

3. Product Payments.

3.1 Payments.

(a) In consideration of the grant of the license, ALZA shall make payments to Crescendo ("Product Payments") with respect to the Licensed Product as follows: 1% of Net Sales of the Licensed Product in the Territory, plus an additional 0.1% of such Net Sales for each full $1 million of Development Costs of the Licensed Product paid by Crescendo. Notwithstanding the foregoing, Product Payments for any quarter will not exceed 2.5% of Net Sales, on a quarterly basis, in the Territory for the first four calendar quarters during which the Licensed Product is commercially sold in the first Major Market Country, and 3% of Net Sales, on a quarterly basis, for each of the following eight completed calendar quarters.

(b) In determining Product Payments, Development Costs shall be determined as of the last day of each calendar quarter, in order to determine the rates payable with respect to

Net Sales for the next calendar quarter for all countries included in the Territory as of the first day of such next calendar quarter, and for any country added to the Territory during such next calendar quarter.

(c) In determining Product Payments, Net Sales by ALZA shall be reduced by the dollar amount of any license or similar payments made by or due from ALZA or its Affiliates to third parties with respect to sales of such Licensed Product in the Territory. If license or similar payments are made to third parties with respect to sales of both the Licensed Product in the Territory and to sales of other products, ALZA shall allocate such payments, if necessary, in a commercially reasonable manner.

3.2 Term of Payments. The obligation to make Product Payments hereunder shall continue until 15 years after the date of the first commercial sale of the Licensed Product in any Major Market Country, and shall terminate as to all countries at the end of such 15-year period.

3.3 Buy-Out of Payments.

(a) ALZA shall have the option, in its discretion, at any time after the end of the twelfth calendar quarter during which the Licensed Product was commercially sold in any country, to buy out its remaining obligations to make Product Payments with respect to Net Sales of such Licensed Product in such country. The buy-out price shall be an amount equal to 15 times the Product Payments made by or due from ALZA to Crescendo with respect to Net Sales of such Licensed Product in such country for the four calendar quarters immediately preceding the quarter in which the buy-out option is exercised, plus 15 times such additional Product Payments as would have been made but for the 2.5% and 3% limits set forth in Section 3.1 on Product Payments for such period.

(b) ALZA shall have the option, in its discretion, at any time after the end of the twelfth calendar quarter during which the Licensed Product was commercially sold in either the United States or two other Major Market Countries, to buy out its remaining obligations to make Product Payments with respect to Net Sales of such Licensed Product in the Territory. The buy-out price shall be an amount equal to (i) 20 times (A) the Product Payments made by or due from ALZA to Crescendo for such Licensed Product in the Territory, plus (B) such payments as would have been made by or due from ALZA to Crescendo if ALZA had not exercised any country-specific buy-out option with respect to Net Sales of such Licensed Product, plus (C) such additional Product Payments as would have been made but for the 2.5% and 3% limits set forth in Section 3.1 on Product Payments for such period, in each case, for the four calendar quarters immediately preceding the quarter in which the buy-out option is exercised, less (ii) any amounts previously paid to exercise any country-specific buy-out option with respect to Net Sales of such Licensed Product.

4 Accounting.

4.1 Reports. Within 90 days after the end of each calendar quarter for which Product Payments are due, ALZA shall render an accounting to Crescendo, on a country-by-country basis, with respect to all Product Payments due for such quarter. Such report shall indicate, for such quarter, the quantity and dollar amount of Net Sales of the Licensed Product by ALZA and its Affiliates, sublicensees, distributors and marketing partners (and their Affiliates), or other consideration with respect to Net Sales, with respect to which payments are due; provided, however, that if ALZA shall not have received from any sublicensee, distributor or marketing partner a report of its (and its Affiliates') sales for such quarter, then such sales shall be included in the next quarterly report. In case no Product Payments are due for any calendar quarter, ALZA shall so report.

4.2 Records; Review by Accountants. ALZA shall keep and maintain, in accordance with generally accepted accounting principles, proper and complete records and books of account documenting all amounts paid or payable by ALZA to Crescendo. Crescendo shall have the right, once in each calendar year during regular business hours and upon reasonable notice to ALZA, at Crescendo's expense, to examine or have examined by a certified public accountant or similar person, such of the records of ALZA as may be necessary to verify the accuracy of the reports and payments made under this Agreement. Such examination shall take place not later than two years following the year in question, and only one examination may take place with respect to any period as to which such books and records are examined. ALZA shall obtain, for itself and for Crescendo, similar reasonable rights to audit information pertaining to Net Sales from each party appointed to commercialize any product as to which payments are due in Crescendo hereunder.

5 Times and Currencies of Payments.

5.1 Payments. Payments shown by each calendar quarter report to have accrued shall be due and payable on the date such report is due and shall be paid in United States dollars. Any and all taxes due or payable on such payments or with respect to the remittance thereof shall be deducted from such payments and shall be paid by ALZA to the proper taxing authorities, and proof of payment shall be secured and sent to Crescendo as evidence of such payment. The rate of exchange to be used in computing the amount of the United States dollars due to Crescendo in satisfaction of payment obligations with respect to sales in foreign countries shall be calculated by converting the amount due in such foreign currency into United States dollars at the rate for the purchase of United States dollars with such currency as published in The Wall Street Journal on the last business day of the calendar quarter for which payment is being made.

5.2 Certain Foreign Payments. If governmental regulations prevent remittance from any foreign country of any amounts due under Section 3.1 in respect of that country, ALZA shall so notify Crescendo in writing, and the obligation under this Agreement to make payments with respect to sales in that country shall be suspended (but the amounts due but not paid shall continue to accrue) until such remittances are possible. Crescendo shall have the right, upon written notice to ALZA, to receive payment in any such country in the local currency.

5.3 Late Payments. Any payments due hereunder that are not made when due shall bear interest at the lesser of 10% per annum or the maximum rate as may be allowed by law, beginning on the date when Crescendo has notified ALZA that such payments are overdue.

6 Patent Infringement.

6.1 Notice. Each party shall promptly notify the other party of use or sale by a third party of an Infringing Product.

6.2 Legal Action. If a third party manufactures or sells an Infringing Product, ALZA may, at its own expense, bring legal action to restrain such infringement and for damages. Any recoveries resulting from any such action shall be first applied to reimburse ALZA for its expenses (including reasonable attorneys' fees) incurred in bringing the action. Crescendo will be entitled to a share of the remaining recoveries in the same percentage as the percentage of Net Sales as to which Product Payments are due to Crescendo during the period of the infringement or alleged infringement. If (a) ALZA fails to take the necessary steps to restrain such infringement or alleged infringement by litigation or otherwise within 90 days after either party's notice described in Section 6.1, (b) if the infringement or alleged infringement occurs during a period for which Crescendo is entitled to receive Product Payments hereunder, and (c) if over a period of at least two calendar quarters such Infringing Product achieves an annualized unit sales volume in the country of infringement equal to 25% of the annualized unit sales volume of the Licensed Product sold by ALZA and its Affiliates, sublicensees, distributors and marketing partners (and their Affiliates) in such country during such year, then Crescendo may institute, in its own name, at its own expense and with the right to all recoveries, such litigation or other appropriate action as it may deem appropriate to restrain such infringement, provided that Crescendo has first given to ALZA 60 days advance notice of its intention to take such action, and provided further, that ALZA has not itself taken appropriate action during such 60 day period.

6.3 Cooperation. If either party desires to bring an action in accordance with Section 6.2, the other party agrees to cooperate fully with the party bringing such action in the pursuit thereof, at the expense of the party bringing such action and to the extent reasonably requested by such party. If the third party in any such action brought by Crescendo brings a counteraction for invalidation or misuse of a patent covering the Licensed Product, Crescendo promptly shall notify ALZA and ALZA may, within six months of the notification, join and participate in such action at its own expense.

6.4 Settlement. Each party agrees not to settle any action it brings in a manner that would adversely affect the other party without the other party's prior written approval.

7 Effective Date and Term.

7.1 Effective Date and Term. This Agreement will become effective in accordance with Section 2.3 of the License Option Agreement and, unless terminated in accordance with any of the provisions hereof, shall remain in full force and effect thereafter.

8 Indemnification.

8.1 Indemnity. ALZA shall indemnify, defend and hold Crescendo (and its Affiliates) harmless from and against any and all liabilities, claims, demands, damages, costs, expenses or money judgments incurred by or rendered against Crescendo and its Affiliates, which arise out of the use, design, labeling or manufacture, processing, packaging, sale or commercialization of the Licensed Product by ALZA, its Affiliates, subcontractors, sublicensees, distributors and marketing partners (and their Affiliates). Crescendo shall permit ALZA's attorneys, at ALZA's discretion and cost, to control the defense of any claims or suits as to which Crescendo may be entitled to indemnification hereunder, and Crescendo agrees not to settle any such claims or suits without the prior written consent of ALZA. Crescendo shall have the right to participate, at its own expense, in the defense of any such claim or demand to the extent it so desires.

8.2 Notice. Crescendo shall give ALZA prompt notice in writing, in the manner set forth in Section 11.7 below, of any claim or demand made against Crescendo for which Crescendo may be entitled to indemnification under Section 8.1.

9 Disclaimers.

CRESCENDO DISCLAIMS ANY EXPRESS OR IMPLIED WARRANTY (A) THAT THE LICENSED PRODUCT OR ANY TECHNOLOGY INCORPORATED THEREIN, OR THE MANUFACTURE, USE OR SALE THEREOF, WILL BE FREE FROM CLAIMS OF PATENT INFRINGEMENT, INTERFERENCE OR UNLAWFUL USE OF PROPRIETARY INFORMATION OF ANY THIRD PARTY AND (B) OF THE ACCURACY, RELIABILITY, TECHNOLOGICAL OR COMMERCIAL VALUE, COMPREHENSIVENESS OR MERCHANTABILITY OF THE LICENSED PRODUCT OR ANY TECHNOLOGY INCORPORATED THEREIN OR THEIR SUITABILITY OR FITNESS FOR ANY PURPOSE WHATSOEVER INCLUDING, WITHOUT LIMITATION, THE DESIGN, DEVELOPMENT, MANUFACTURE, USE OR SALE OF THE LICENSED PRODUCT. CRESCENDO DISCLAIMS ALL OTHER WARRANTIES OF WHATEVER NATURE, EXPRESS OR IMPLIED.

10 Termination.

10.1 Termination by Crescendo. Crescendo may, in its discretion, terminate this Agreement in the event that ALZA:

(a) breaches any of its material obligations hereunder and such breach continues for a period of 60 days after written notice thereof; or

(b) enters into any proceeding, whether voluntary or otherwise, in bankruptcy, reorganization or arrangement for the appointment of a receiver or trustee to take possession of ALZA's assets or any other proceeding under any law for the relief of creditors or makes an assignment for the benefit of its creditors.

10.2 Termination by ALZA. ALZA may terminate this Agreement with respect to one or more countries included in the Territory upon 30 days' prior written notice to Crescendo if ALZA elects for any reason to discontinue commercialization of the Licensed Product in such country.

10.3 Consequences of Termination. Termination of this Agreement for any reason in accordance with the terms hereof shall be without prejudice to:

(a) Crescendo's right to receive all payments accrued under Section 3 prior to the effective date of such termination; and

(b) any other remedies which either party may then or thereafter have hereunder or otherwise. If this Agreement terminates pursuant to this Section 10, ALZA shall immediately discontinue any promotion and sales of the Licensed Product. Notwithstanding the foregoing, in the event of any termination under this Section 10, ALZA may sell its inventory in stock on the date of termination for a period of up to six months after the termination, and shall remit payments to Crescendo in respect thereto in accordance with this Agreement.

11 Miscellaneous.

11.1 Waiver, Remedies and Amendment. Any waiver by either party hereto of a breach of any provisions of this Agreement shall not be implied and shall not be valid unless such waiver is recited in writing and signed by such party. Failure of any party to require, in one or more instances, performance by the other party in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of the future performance of any such terms or conditions or of any other terms and conditions of this Agreement. A waiver by either party of any term or condition of this Agreement shall not be deemed or construed to be a waiver of such term or condition for any other term. All rights, remedies, undertakings, obligations and agreements contained in this Agreement shall be cumulative and none of them shall be a limitation of any other remedy, right, undertaking, obligation or agreement of either party. This Agreement may not be amended except in writing signed by both parties.

11.2 Assignment. Neither party may assign its rights and obligations hereunder without the prior written consent of the other party, which consent may not be unreasonably withheld; provided, however, that ALZA may assign such rights and obligations hereunder to an Affiliate of ALZA or to any person or entity with which ALZA is merged or consolidated or which acquires all or substantially all of the assets of ALZA.

11.3 Arbitration.

(a) All disputes which may arise under, out of or in connection with this Agreement shall be settled by arbitration conducted in the City of San Francisco, State of California, in accordance with the then existing rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The parties hereby agree that service of any notices in the course of such arbitration at their respective addresses as provided for in Section 11.7 of this Agreement shall be valid and sufficient.

(b) In any arbitration pursuant to this Section 11.3, the award shall be rendered by a majority of the members of a board of arbitration consisting of three members who shall be appointed by the parties jointly, or if the parties cannot agree as to three arbitrators within 30 days after the commencement of the arbitration proceeding, then one arbitrator shall be appointed by ALZA and one arbitrator shall be appointed by Crescendo within 60 days after the commencement of the arbitration proceeding. The third arbitrator shall be appointed by mutual agreement of such two arbitrators. In the event of failure of the two arbitrators to agree within 75 days after commencement of the arbitration proceeding upon the appointment of the third arbitrator, the third arbitrator shall be appointed by the American Arbitration Association in accordance with its then existing rules. Notwithstanding the foregoing, in the event that any party shall fail to appoint an arbitrator it is required to appoint within the specified time period, such arbitrator and the third arbitrator shall be appointed by the American Arbitration Association in accordance with its then existing rules. For purposes of this Section 11.3, the "commencement of the arbitration proceeding" shall be deemed to be the date upon which a written demand for arbitration is received by the American Arbitration Association from one of the parties.

11.4 Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute this Agreement.

11.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of California as applied to residents of that state entering into contracts to be performed in that state.

11.6 Headings. The headings set forth at the beginning of the various sections of this Agreement are for convenience and form no part of the Agreement between the parties.

11.7 Notices. Notices required under this Agreement shall be in writing and sent by registered or certified mail, postage prepaid, or by facsimile and confirmed by registered or certified mail, postage prepaid, and addressed as follows:

If to ALZA: ALZA Corporation
950 Page Mill Road
Palo Alto, CA 94304
Facsimile: (650) 496-8048
Attention: Senior Vice President and General Counsel

If to Crescendo: Crescendo Pharmaceuticals Corporation
1454 Page Mill Road
Palo Alto, CA 94304

Facsimile: (650) 496-8250
Attention: President and Chief Executive Officer

All notices shall be deemed to be effective five days after the date of mailing or upon receipt if sent by facsimile (but only if followed by certified or registered confirmation). Either party may change the address at which notice is to be received by written notice pursuant to this Section 11.7.

11.8 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, it shall be modified, if possible, to the minimum extent necessary to make it valid and enforceable or, if such modification is not possible, it shall be stricken and the remaining provisions shall remain in full force and effect.

11.9 Relationship of the Parties. For all purposes of this Agreement, Crescendo and ALZA shall be deemed to be independent contractors and anything in this Agreement to the contrary notwithstanding, nothing herein shall be deemed to constitute Crescendo and ALZA as partners, joint venturers, co-owners, an association or any entity separate and apart from each party itself, nor shall this Agreement constitute any party hereto an employee or agent, legal or otherwise, of the other party for any purposes whatsoever. Neither party hereto is authorized to make any statements or representations on behalf of the other party or in any way to obligate the other party, except as expressly authorized in writing by the other party. Anything in this Agreement to the contrary notwithstanding, no party hereto shall assume nor shall be liable for any liabilities or obligations of the other party, whether past, present or future.

11.10 Survival. The provisions of Sections 1, 4.2, 8, 9, 10.3, 11.1, 11.3, 11.5, 11.6, 11.7, 11.8, 11.9 and this Section 11.10 shall survive the termination for any reason of this Agreement. Any payments due under this Agreement with respect to any period prior to its termination shall be made notwithstanding the termination of this Agreement. Neither party shall be liable to the other due to the termination of this Agreement as provided herein, whether in loss of good will, anticipated profits or otherwise.

11.11 Force Majeure. Neither party to this Agreement shall be liable for failure or delay in the performance of any of its obligations hereunder, if such failure or delay is due to causes beyond its reasonable control including, without limitation, acts of God, earthquakes, fires, strikes, acts of war, or intervention of any governmental authority, but any such delay or failure shall be remedied by such party as soon as possible after the removal of the cause of such failure or delay.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first set forth above.

ALZA CORPORATION

By: /s/ Peter D.Staple

Title: Sr. Vice President, General
Counsel and Assistant Secretary

CRESCENDO PHARMACEUTICALS CORPORATION

By: _/s/_Dr. Gary L. Neil

Title: President & Chief Executive
Officer

ATTACHMENT A

LICENSED PRODUCT

OROS-registered trademark- oxybutynin (referred to as CPC-1)

ATTACHMENT B

TERRITORY

DATE OF EXERCISE	COUNTRY
December 16, 1998	worldwide

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