



**Corporate Headquarters**

270 Sylvan Avenue  
Englewood Cliffs, NJ 07632  
Phone: 201-894-8980  
Fax: 201-837-0200

**California**

6650 Nancy Ridge Drive  
San Diego, CA 92121  
Phone: 858-202-1870  
Fax: 858-202-4000

**Germany**

Goethestraße 4  
D-80336 Munich, Germany  
Phone: 011-49-89-380872-0  
Fax: 011-49-89-6808 72-20

introducing the new epicept



## > dear shareholder,

This is our first report to shareholders since EpiCept became a public company after our merger with Maxim Pharmaceuticals, which closed on January 4, 2006. We are very excited to share with you our vision for EpiCept's product development efforts going forward and the progress we have made in the past several months.

### Our Vision

Our merger with Maxim created a clearly differentiated specialty pharmaceutical company that leverages our promising portfolio of topical pain therapies while adding product candidates with significant market potential to treat cancer. Through the merger, we obtained a registration-stage oncology product candidate and early-stage R&D capabilities focused on novel approaches to induce apoptosis that may be applied to various cancer treatments. We now have a very broad pipeline of product candidates, ranging from discovery to registration-stage, in the unmet and growing fields of pain and cancer.

The combination of Maxim's core expertise in the discovery of potential drug candidates through novel screening and discovery techniques and our ability to design and manage difficult trials, provides EpiCept with a range of intellectual property and skills that are rare for a company our size. These combined skills enable us to potentially generate significant value for our shareholders by developing effective drug candidates, including new chemical entities and new uses for existing therapies, advancing them into late-stage clinical development and then seeking marketing approval either alone or in conjunction with strategic partners.

A core area of our business remains the topical delivery of pain medications. This delivery method may have tremendous utility for patients who suffer from pain because it eliminates



risks of adverse reactions inherent in systemic circulation. In addition, we believe our concentration on novel, patent-protected uses of FDA approved substances will create a more streamlined regulatory pathway compared to new chemical entities. We believe that these attributes set EpiCept apart from many specialty pharmaceutical and biotech companies and offer investors an attractive risk-reward proposition for their investment.

We are also excited about the addition of our new discovery capabilities in San Diego and the opportunities they will provide for us to explore new applications in the treatment of cancer. Our ability to screen for compounds that induce apoptosis, develop them into drug candidates and test them in clinical trials may enable us to open a whole new area of medicine for the treatment of a variety of cancers and other indications and provide us the opportunity to partner at meaningful valuation points. We already have one partner,

## > product pipeline

product	initial indication	preclinical	phase I	phase II	phase III	registration
Ceplene	Acute myeloid leukemia	[Progress bar spanning from preclinical to phase III]				
EpiCept NP-1	Post-herpetic neuralgia	[Progress bar spanning from preclinical to phase II]				
LidoPAIN SP	Surgical incisional pain	[Progress bar spanning from preclinical to phase II]				
LidoPAIN BP	Acute lower back pain	[Progress bar spanning from preclinical to phase II]				
EpiCept MP/DP	Oral mucositis; dental pain	[Progress bar spanning from preclinical to phase I]				
LidoPAIN TV	Tinnitus	[Progress bar spanning from preclinical to phase I]				
LidoPAIN HM	Headache	[Progress bar spanning from preclinical to phase I]				
MPC-6827	Brain Cancer, solid tumors	[Progress bar spanning from preclinical to phase I]				
EPC-2407	Cancer, solid tumors	[Progress bar spanning from preclinical to phase I]				



## shareholder letter

Myriad Genetics, in this program and we have several other compounds that may be appropriate for internal development or partnership.

A driving factor in our merger was the potential to obtain marketing approval for Ceplene in Europe based on the compound's current clinical package. We view the possible approval of this compound, which would be marketed by a partner in Europe, as an opportunity to derive near-term value from the merger. If favorably viewed by the European regulators, Ceplene could be available for patients as early as 2008.

### Portfolio Review

The new EpiCept has a balanced portfolio of product candidates in clinical development and capabilities to develop important new chemical entities:

- An oncology product candidate, Ceplene, is being prepared for European registration.
- Three topical pain product candidates are in or ready to commence Phase III clinical trials.
- Three topical pain product candidates are in Phase II development.
- An oncology product candidate is in Phase I for brain cancer and solid tumors; and
- Infrastructure is in place to discover and develop new novel chemical compounds that induce apoptosis.

Our three late-stage analgesic product candidates all address significant market opportunities with unmet clinical needs.

- EpiCept NP-1 cream is designed to provide long-term relief from the pain of peripheral neuropathies, which affect more than 15 million people in the United States. We estimate that, if approved by the FDA, the market potential for NP-1 could range between \$500 million and \$1 billion. We are currently scaling up the production of NP-1 to prepare for a Phase III clinical trial later this year.
- LidoPAIN SP is the first sterile patch designed to provide sustained topical delivery of lidocaine to a post-surgical or post-traumatic sutured wound in order to relieve post-operative pain and minimize the need for narcotics, NSAIDs or Cox II inhibitors. More than 53 million surgical procedures are conducted annually in the United States and many, if not most, of these procedures are candidates for LidoPAIN SP. We are currently completing a pivotal scale trial for this product in Europe which, if



successful, will form the basis for the submission of our European application in 2007. Our North American partner, Adolor Corporation, is currently conducting a Phase II trial for LidoPAIN SP in the United States.

- LidoPAIN BP is designed to provide sustained topical delivery of lidocaine for the treatment of acute or recurrent lower back pain. Acute back pain is one of the most common reasons to visit a physician's office for treatment. We are working towards scaling up this product to commence a Phase III clinical trial in close consultation with our partner, Endo Pharmaceuticals.

Our apoptosis program is showing solid progress as well.

- In April 2005, we received a milestone payment from Myriad in connection with the initiation of a Phase I trial for MPC-6827. This compound is Myriad's lead development candidate for solid tumors and metastatic brain cancer.
- We are also advancing EPC2407, another small-molecule apoptosis inducer discovered at the company, toward an IND filing later this year for the treatment of certain types of cancer.

### We Raised \$11.6 Million in a Private Placement

Beyond the continued development of our portfolio, we've also strengthened EpiCept financially. In February 2006, we raised \$11.6 million in gross proceeds through a private placement of common stock and warrants. In connection with the private placement, EpiCept issued approximately 4.1 million shares of its common stock at \$2.85 per share and five-year warrants to purchase up to approximately 1.0 million shares of common stock at an exercise price of \$4.00 per share. This was an important transaction that provided us with capital to energize the operations of the merged company from the outset. While our capital needs are still significant, we will be looking towards future milestones from our existing partnerships, licensing our European



## highlights



### EpiCept Merges with Maxim

Our merger with Maxim created a clearly differentiated specialty pharmaceutical company that leverages our promising portfolio of topical pain therapies while adding product candidates with significant market potential to treat cancer.



“The new EpiCept has a balanced portfolio of product candidates in clinical development and capabilities to develop important new chemical entities.”

rights for Ceplene and LidoPAIN SP, and other potential capital raising to fund the Company prior to the time our product candidates are approved for marketing.

**2005 Net Loss Narrowed**

For the year ending December 31, 2005, our net loss attributable to common shareholders narrowed 6 percent to \$8.5 million, or \$4.95 per basic and diluted share, from \$9.0 million, or \$5.35 per basic and diluted share, for the year ended December 31, 2004. Our results in 2006 and thereafter will be tremendously impacted by the merger: through the merger we significantly reduced our debt, converted all of our preferred stock into common stock, and saw the old EpiCept’s pre-merger warrants exercised into common stock. As a result of these activities, the merger with Maxim, and the recent financing, we have 24.5 million common shares currently outstanding. We anticipate that 2006 non-merger related expenses will be higher than in any of our previous years, but will be less than the sum of EpiCept and Maxim operating expenses during 2005.

**Looking Ahead**

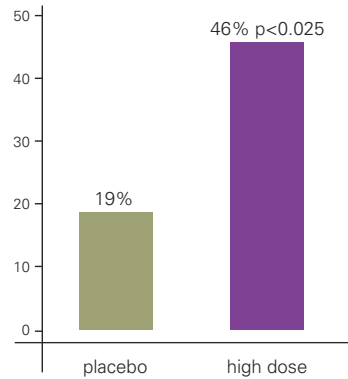
We are very excited about our prospects. During 2006, we have several very important events that will define our progress for the next few years. We plan to report on several important milestones, including the outcomes of several clinical trials by EpiCept and our licensees, the initiation of important clinical trials sponsored by EpiCept, as well as the expected submission of our Marketing Authorization Application for Ceplene in Acute Myeloid Leukemia with the EMEA. There is much to do and we look forward to continuing to share our progress in these efforts.

Thank you for your continued support and interest in EpiCept Corporation.

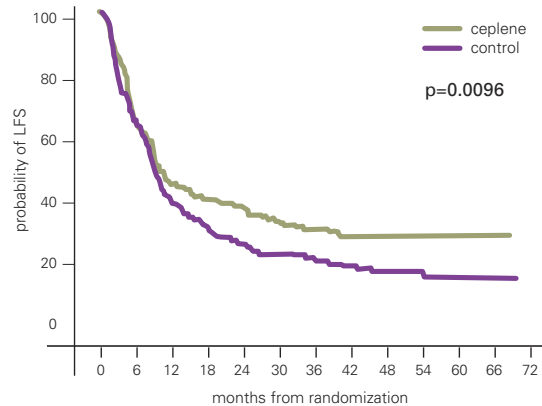
**Robert G. Savage**  
Chairman of the Board

**Jack V. Talley**  
President and CEO

np-1 relieves post-herpetic pain  
percentage of subjects with at least 30% decrease in pain intensity



ceplene improves leukemia free survival  
probability of being leukemia free over time



**New Discovery Capabilities to Create Greater Opportunities**

Our new research and development capabilities in San Diego will enable us to explore new applications in the treatment of cancers, thereby creating new opportunities for us to deepen our pipeline and establish new potential partnership opportunities.



**EpiCept Raises \$11.6 Million**

We have strengthened EpiCept financially, raising \$11.6 million in gross proceeds through a private placement of common stock and warrants.



(From Left to Right) Robert G. Savage, Jack V. Talley, Robert W. Cook, Ben Tseng, Dileep Bhagwat, Michael McClurg and Dov S. Elefant

### executive officers and key employees

**Jack V. Talley**

President and  
Chief Executive Officer

**Robert W. Cook**

Chief Financial Officer and  
Senior Vice President,  
Finance and Administration

**Ben Tseng, PhD**

Chief Scientific Officer

**Dov S. Elefant**

Controller and  
Vice President,  
Finance and Administration

**Oliver Wiedemann, MD**

Managing Director,  
Medical Affairs,  
EpiCept GmbH

**Dileep Bhagwat, PhD**

Senior Vice President,  
Pharmaceutical Development

**Michael McClurg**

Vice President,  
Business Development

### board of directors

**Robert G. Savage**

Chairman

**Jack V. Talley**

**Gert Caspritz**

**Guy C. Jackson**

**Gerhard Waldheim**

**John F. Bedard**

**Wayne P. Yetter**

### transfer agent

**American Stock Transfer  
& Trust Company**

59 Maiden Lane  
New York, NY 10038

### shares listed

The Nasdaq National Market  
(ticker: EPCT)

The OMX Stockholm Exchange  
(ticker: EPCT)

### independent registered public accountants

**Deloitte & Touche LLP**

Two Hilton Court  
Parsippany, NJ 07054

### corporate counsel

**Weil, Gotshal & Manges LLP**

767 Fifth Avenue  
New York, NY 10153

### investor relations

Additional copies of this Annual Report and of the Company's Report on Form 10-K, excluding exhibits, are available without charge, along with ancillary company materials for investment purposes, upon request to:

EpiCept Corporation  
270 Sylvan Avenue  
Englewood Cliffs, NJ 07632  
Telephone: (201) 894-8980

### website

[www.epicept.com](http://www.epicept.com)

**Safe Harbor Statement**—This Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements are characterized by future or conditional verbs and include, but are not limited to, statements regarding the planned EMEA application filing for Ceplene, the results of product development efforts, clinical trials and applications for marketing approval of our product candidates, the efficacy, safety and intended utilization of our product candidates, the scope and success of future operations and our efforts to raise additional capital. Such statements are only predictions and our actual results may differ materially from those anticipated or projected in these forward-looking statements. Factors that may cause such differences include, but are not limited to, those discussed in the "Risk Factors" section and elsewhere in our Form 10-K for the year ended December 31, 2005, including the uncertainties associated with product development, the risk that products that appeared promising in early clinical trials do not demonstrate efficacy in larger-scale clinical trials, the risk that we will not obtain approval to market our products, the risks associated with dependence upon key personnel, the need for additional financing, and the dependence upon collaborative partners. Additional risks and uncertainties may be found in our Form 10-K for the year ended December 31, 2005 and our periodic reports on Form 10-Q and Form 8-K. We do not undertake to discuss matters relating to our ongoing clinical trials or our regulatory strategies beyond those which have already been made public or discussed herein.