

VALENTIS IS DEVELOPING A BROAD  
ARRAY OF TECHNOLOGIES AND  
INTELLECTUAL PROPERTY IN  
BIOLOGICS DELIVERY DESIGNED TO  
IMPROVE THE SAFETY, EFFICACY  
AND DOSING CHARACTERISTICS OF  
GENES, PROTEINS, PEPTIDES,  
PEPTIDOMIMETICS, ANTIBODIES  
AND REPLICATING AND  
NON-REPLICATING VIRUSES.

## Financial Highlights

(in thousands, except per share data)

Year Ended June 30,

1999

1998

1997

### Statement of Operations Data:

Collaborative research and development revenue

\$ 3,430 \$ 8,083 \$ 5,793

Research and development grant revenue

699 – –

Total revenue

4,129 8,083 5,793

### Operating expenses:

Research and development

17,806 13,611 8,598

General and administrative

5,063 3,561 2,417

Acquired in-process research and development

26,770 1,500 –

Amortization of goodwill and other intangible assets

819 – –

Total operating expenses

50,458 18,672 11,015

Loss from operations

(46,329) (10,589) (5,222)

Interest income (expense), net

1,649 2,211 275

Net loss

\$ (44,680) \$ (8,378) \$ (4,947)

Basic and diluted net loss per share

\$ (2.90) \$ (0.83) \$ (4.40)

Shares used in computing basic and diluted net loss per share

15,430 10,088 1,126

### Balance Sheet Data:

Cash, cash equivalents and investments

\$ 39,137 \$ 48,426 \$ 24,269

Working capital

15,461 20,966 21,629

Total assets

64,427 55,901 29,978

Long-term debt

5,459 2,464 1,487

Accumulated deficit

(73,266) (28,586) (20,208)

Total stockholders' equity

45,930 50,282 25,223

Dear Stockholders, Partners and Employees,

During fiscal 1999, we initiated a rather dramatic transformation of Valentis. It is our belief that institutional investors have been pulling money from the biotechnology sector because the capitalization of most companies is too small to make a meaningful investment, their product portfolios are too narrow to allow adequate risk diversification and their stocks are too illiquid. We believe the best solution for these problems is to have more products in clinical development and one of the most expeditious ways for us to achieve that goal is through mergers and acquisitions. In March 1999, we completed the merger of Megabios Corp. with GeneMedicine, Inc. to create Valentis, Inc., a company with clear leadership in gene-based therapeutics. These two companies had previously competed in the same field of technology development, for the same potential partnerships and for the same specialized scientists. The goal of this merger was to create the "obvious choice" in our field and simplify the decision making process for potential partners, employees and investors. Once the field of gene-based therapeutics, or gene medicines, is validated through definitive clinical efficacy, we believe this merger will allow us to capture a much greater portion of the market.

Gene medicines allow us to achieve production of therapeutic proteins in specific cells and tissues. They are, therefore, just a highly specific way to deliver proteins. To further broaden our capabilities for the delivery of proteins and other bio-

logics, in August 1999 we merged with PolyMASC Pharmaceuticals plc. PolyMASC brings us additional delivery technologies for genes, proteins, peptides, peptidomimetics, antibodies and viruses, creating leadership in the broader field of biologics delivery and further enhancing our opportunities for clinical product candidates. Valentis now has multiple approaches to creating products, increasing our probability of finding delivery solutions for a wide variety of biologics.

The market introduction rate of traditional small molecule therapeutics has been steady for many years, and the growth area in therapeutics has become biologics. This is the result of the use of biotechnology tools that were discovered about 20 years ago now resulting in multiple product introductions. The initial biologic products were proteins, generating current annual sales of about \$9 billion and growing at double-digit rates. Antibodies are the next wave of biologics and are emerging as a major mode of therapy for multiple diseases. We believe genes will emerge as the third wave of biologic product introductions. Together, these products are expected to account for a substantial portion of the total market for therapeutics. However, biologics are notoriously "patient unfriendly" because they commonly require frequent injections and are poorly tolerated. With our broad array of delivery technologies, we believe we can create biologics with improved safety, efficacy or dosing convenience that will enhance the total potential market of these products.

VALENTIS' TECHNOLOGIES ARE COVERED BY A **BROAD PATENT PORTFOLIO** THAT INCLUDES ISSUED U.S. AND EUROPEAN CLAIMS. VALENTIS' COMMERCIAL STRATEGY IS TO ENTER INTO CORPORATE COLLABORATIONS FOR FULL-SCALE CLINICAL DEVELOPMENT AND MARKETING AND SALES OF PRODUCTS. THE COMPANY, ITSELF

OR THROUGH ITS POLYMASC SUSIDIARY, CURRENTLY HAS CORPORATE COLLABORATIONS WITH ROCHE, ELI LILLY, BOEHRINGER INGELHEIM, GLAXO WELLCOME, TRANSKARYOTIC THERAPIES, ONYX PHARMACEUTICALS AND BAYER AND A MANUFACTURING PARTNERSHIP WITH DSM BIOLOGICS AND QIAGEN N.V.

The true driver of market value for companies in the biotech industry is having promising products at later stages of development for meaningful markets. This is typically demonstrated after good Phase II clinical efficacy study data are released by the company. By focusing our development efforts on obtaining relevant clinical data, we are striving to move our products as rapidly as possible through the clinic, reducing the time to market introduction of these new therapeutic technologies. To this end, in June 1999 at the end of our fiscal year, we already had five product candidates in early clinical testing that address markets of \$500 million and larger. Plans call for three more products to be put into clinical trials next year.

Our business model is to continue to put products into clinical testing ourselves and with our corporate collaborators on a regular basis, providing a steady stream of candidates for late stage development. The probability of success of any one product is extremely difficult to predict, so we believe the best strategy is to advance as many promising product candidates into clinical development as we can. It is important to point out that our intent is still to partner all of our products for late stage development. To better effect this strategy, the Company continually evaluates its research programs to ensure that the most promising product candidates are given the appropriate levels of resources.

As everyone knows, mergers and acquisitions can be very difficult and expensive. However, we believe these difficulties and costs are justified because they have enabled us to assemble a diverse and talented scientific staff, a broad array of technologies and intellectual property and an exceptional management team. We have created a working environment where we strongly emphasize speed and focus in the development of products. We believe that utilizing these assets to develop unique products and put them into clinical trials will be the key to the creation of substantial stockholder value. I would like to thank our stockholders, employees, corporate partners and collaborators for their support in helping us achieve these goals and I look forward to sharing our future success with you.



Benjamin F. McGraw, III  
Chairman, President and Chief Executive Officer  
Valentis, Inc.

THE TRUE DRIVER OF MARKET VALUE FOR BIOTECH COMPANIES IS HAVING PROMISING PRODUCTS AT LATER STAGES OF DEVELOPMENT FOR MEANINGFUL MARKETS. WE HAVE FOCUSED THE COMPANY ON THE CONVERSION OF TECHNOLOGIES TO PRODUCTS AND THE INTRODUCTION OF THOSE PRODUCTS INTO HUMAN

TRIALS OF SAFETY AND EFFICACY. IN JUNE 1999 AT THE END OF OUR FISCAL YEAR, WE ALREADY HAD FIVE PRODUCT CANDIDATES IN EARLY CLINICAL TESTING THAT ADDRESS MARKETS OF \$500 MILLION AND LARGER. PLANS CALL FOR THREE MORE PRODUCTS TO BE PUT INTO CLINICAL TRIALS NEXT YEAR.

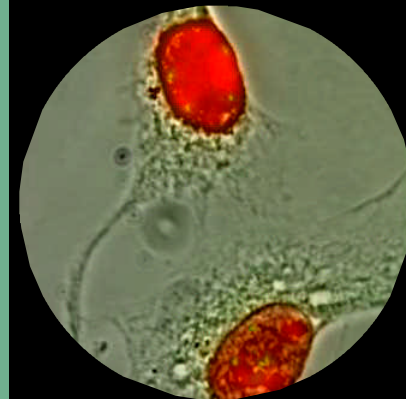
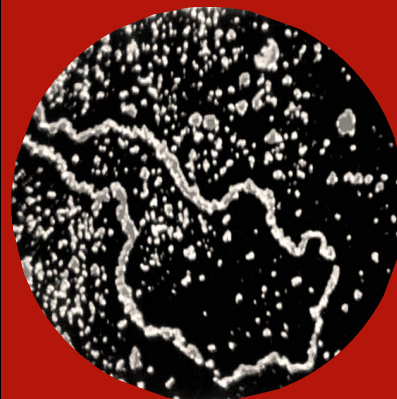
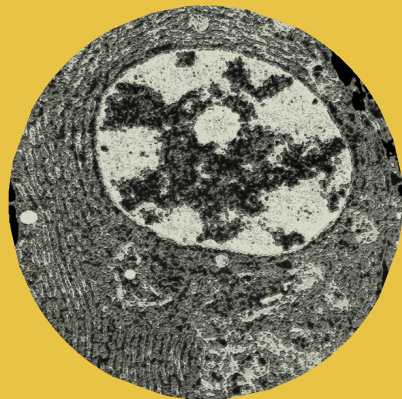
PORTFOLIO OF  
PROPRIETARY  
TECHNOLOGIES

DELIVERY SYSTEMS  
LIPIDS  
POLYMERS  
PEPTIDES  
CARBOHYDRATES  
DEVICES

MANUFACTURING  
FERMENTATION  
PURIFICATION  
LYOPHILIZATION  
GMP PRODUCTION

EXPRESSION SYSTEMS  
GENESWITCH™  
TISSUE-SPECIFIC  
PROMOTERS  
STABILIZERS  
PERSISTENCE ELEMENTS  
MULTI-GENE CASSETTES

PEGYLATION  
TECHNOLOGIES  
PROTOMASC™  
VIRAMASC™  
ANTIMASC™  
LIPOMASC™



## Products in Development

The following table summarizes the Company's leading product candidates and their potential therapeutic indications:

Product	Indications	Development Stage	Collaborator
<b>Cancer</b> IL-2 IFN- $\alpha$ IL-12 IL-12/superantigen B BRCA-1 Anti-angiogenesis gene medicine Systemic (IV) cytokine	Head and neck cancer Head and neck cancer Head and neck cancer Melanoma Breast and ovarian cancer Solid tumors and metastases Pulmonary metastases	Phase IIb Phase IIa Phase IIa Phase IIa Preclinical Preclinical Preclinical	Roche Roche Roche Lilly
<b>Cardiovascular Disease</b> VEGF165 Del-1 (angiogenesis) eNOS	Restenosis (CAD/PVD) PVD/CAD Transplant rejection	Phase II Preclinical Preclinical	
<b>Lung Disease</b> CFTR AAT	Cystic fibrosis AAT deficiencies	Phase I/II completed Phase I/II completed	Glaxo
<b>Rheumatology</b> Undisclosed genes	RA, OA, cartilage repair	Research	Boehringer Ingelheim
<b>Immunology</b> Prophylactic and therapeutic vaccines	Infectious diseases	Research/Preclinical	
<b>PEGylation Programs</b> ONYX-015 Factor VIII Secreted proteins	Solid tumors and metastases Hemophilia Various indications	Preclinical Preclinical Preclinical	Onyx Bayer Transkaryotic Therapies

THE USE OF GENES AS THERAPEUTICS OFFERS THE POSSIBILITY OF ADDRESSING DISEASES WITH SIGNIFICANT UNMET NEED. GENE MEDICINES INTRODUCE GENES INTO CELLS OF THE BODY WHERE THE GENES CAUSE THE PRODUCTION OF SPECIFIC PROTEINS NEEDED TO BRING ABOUT A THERAPEUTIC EFFECT.

VALENTIS IS DEVELOPING A BROAD TECHNOLOGY PLATFORM CONSISTING OF SEVERAL *IN VIVO*, NON-VIRAL GENE DELIVERY SYSTEMS THAT CAN PREFERENTIALLY TARGET SPECIFIC TISSUES AND CELL TYPES AND CAN BE HANDLED AND ADMINISTERED LIKE TRADITIONAL PHARMACEUTICALS.

The use of genes as therapeutics offers the possibility of addressing diseases with significant unmet medical need. Already thousands of genes have been identified, and as the nature of these genes becomes better understood, the potential for gene-based therapy is growing.

Gene medicines are an approach to the treatment or prevention of certain diseases in which therapeutic genes are introduced into the body to cause the production of specific proteins needed to bring about a therapeutic effect. For gene medicines to work, the therapeutic gene must be delivered to, and transported across, the outer membrane of a targeted cell and into the nucleus where it can be expressed. The expressed protein may remain within the cell for an intracellular effect, be transported to the cell membrane to exert a cell-surface effect or be secreted into the bloodstream to have a systemic effect. Most gene medicines utilize a delivery system, or vector, into which the therapeutic gene is incorporated to facilitate its delivery to, and uptake by, the target cell.

To date, a limiting factor in gene-based therapy has been the lack of safe, effective gene delivery systems. To overcome these limitations, Valentis is developing a broad technology platform consisting of several *in vivo*, non-viral systems. Each delivery system consists primarily of two components: 1. a DNA plasmid, a circular segment of DNA that contains a therapeutic gene and components that regulate its expression; and 2. lipids or polymers to facilitate the deliv-

ery of the DNA plasmids into target cells. In most of the Company's gene delivery systems, the Company combines negatively-charged DNA with novel polymers or positively-charged and neutral lipids to form tightly-bound DNA complexes.

The Company's DNA delivery systems have been shown to produce therapeutically relevant protein levels that persist for months in animal studies. In addition, they can preferentially target specific tissues and cell types and can be handled and administered like traditional pharmaceuticals. The Company has demonstrated that it can produce clinical-grade DNA plasmids, DNA:lipid complexes and formulations under controlled conditions, and has developed manufacturing and production methods designed to be scaled to meet commercial requirements.

Furthermore, the Company has developed the GeneSwitch™ system to provide precise control over the level of duration of expression of therapeutic genes when introduced into the body via gene therapy. Using the GeneSwitch™, gene expression is turned on by administration of an orally bioavailable drug in a dose-dependent manner.

Valentis has tested its gene delivery systems in hundreds of *in vivo*, pre-clinical experiments. Importantly, Valentis' delivery systems allow for repeat administration of gene-based therapeutics for the treatment of chronic diseases. Valentis now has various delivery systems in clinical trials for oncology and cardiovascular and pulmonary diseases.

PEGYLATION INVOLVES THE ATTACHMENT OF THE POLYMER POLYETHYLENEGLYCOL (PEG) TO THERAPEUTICS. THE ALTERATION OF THE PHARMACOKINETICS OF BIOLOGICS DUE TO PEGYLATION CAN LEAD TO IMPROVED DOSING INTERVALS AND MAY ALSO HAVE BENEFICIAL EFFECTS ON SAFETY AND EFFICACY.

POLYMASC'S PEGYLATION DIFFERS FROM OTHER METHODS IN THAT IT DIRECTLY LINKS PEG TO THE TARGET AND AVOIDS DAMAGING COUPLING CONDITIONS. THIS LINKERLESS TECHNIQUE HAS AN EXCELLENT RECORD IN THE CONSERVATION OF BIOACTIVITY AND THERAPEUTIC ACTIVITY OF DELICATE TARGETS.

The primary technology focus of PolyMASC is the creation of improved biologics through the application of PEGylation technologies. PEGylation is an established technology that involves the attachment of the polymer polyethyleneglycol (“PEG”) to therapeutics to alter their pharmacokinetics (distribution in the body, metabolism and excretion). The alteration of the pharmacokinetics of biologics due to PEGylation can lead to improved dosing intervals and may also have beneficial effects on safety and efficacy. PEGylation also masks biologics from the immune system. Both recognition by antibodies (antigenicity) and stimulation of immune responses (immunogenicity) are reduced.

PolyMASC’s proprietary technologies are based on novel patented Molecule Altering Structural Chemistry (MASC) techniques for attaching polymers to other molecules or to carrier systems for pharmaceuticals. The MASC family of technologies is not restricted to use with PEG. However, current applications are focused on PEG because it has an excellent safety record and is already approved for administration to humans. The attachment of PEG chains has the potential to add considerable value to many biologics including proteins, peptides, antibodies and viruses. As well as making them longer acting and less visible to the body’s immune system, PEGylation reduces wastage of the valuable active element of the therapy.

PolyMASC’s PEGylation differs from certain other methods in that it links PEG to the target and avoids damaging coupling conditions. The direct linkage circumvents a range of problems introduced by linker groups. PolyMASC’s linkerless technique has what the Company believes to be an excellent record in the conservation of bioactivity and therapeutic activity of delicate targets.

PolyMASC has developed a number of proprietary applications for its technologies:

- protoMASC™ – a process of masking protein or peptide pharmaceuticals to slow clearance from the body, which gives excellent retention of biological activity;
- viraMASC™ – a process for coating viruses to increase efficacy in gene therapy and the treatment of cancer;
- antiMASC™ – a process for cloaking anti-tumor antibody fragments to delay clearance by the body, which provides improved tumor localization and penetration;
- lipoMASC™ – a process for coating liposomes, hollow lipid droplets, which leads to significantly improved tumor localization and has application in the delivery of anti-cancer agents.

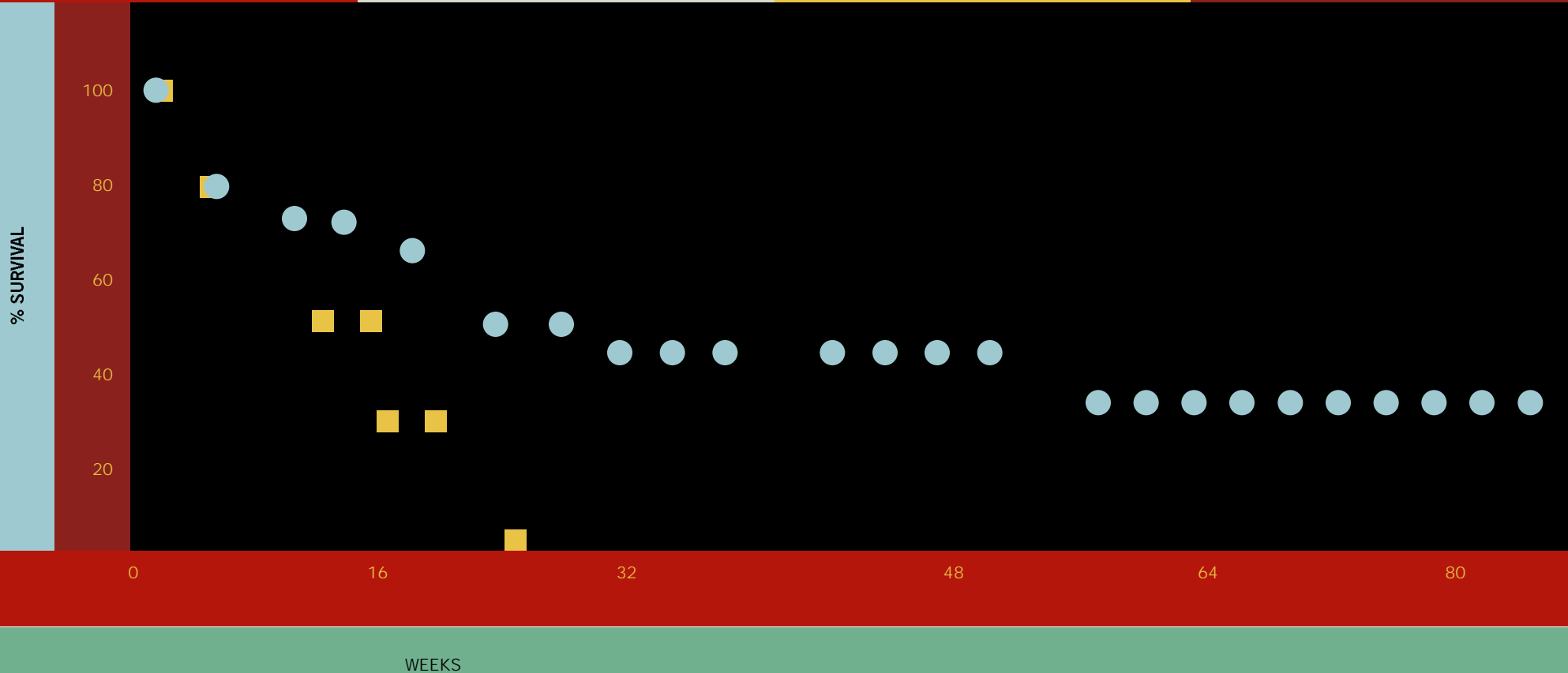
PolyMASC’s technologies are covered by a family of patents and patent applications filed in all major jurisdictions.

# CYTOKINE/ SUPERANTIGEN GENE COMBINATION

SPONTANEOUSLY  
DEVELOPING  
MALIGNANT  
TUMORS IN DOGS

TREATMENT GROUP  
N = 12

CONTROL GROUP  
N = 8



The Company has collaborative corporate research and development agreements and is actively seeking additional collaborations with pharmaceutical and biotechnology companies. The Company also has a manufacturing collaboration based on Valentis' proprietary methods for the manufacture of DNA plasmids and DNA:lipid complexes, creating the first contract facility that can produce high-quality, ultrapure material for plasmid-based therapeutics on every scale, from preclinical toxicology studies to commercial products. In entering corporate collaborations, the Company seeks license fees, funding for research and development, milestone payments and royalties on product sales in exchange for worldwide commercial licenses to specific therapeutics and access to its development expertise.

**Roche Holdings Ltd.** Pursuant to the merger with GeneMedicine, Inc. in March 1999, Valentis acquired rights under a corporate collaboration agreement with Roche, originally signed in February 1995, providing for research and development of gene medicines to treat head and neck tumors and melanoma. Under the agreement the Company is conducting a Phase IIb clinical trial of an IL-2 gene medicine that began in June 1999, a Phase IIa clinical trial for an Interferon- $\alpha$  gene medicine that began in March 1999, and a Phase IIa clinical trial for an IL-12 gene medicine that began in July 1999. Roche is funding research and clinical development at Valentis, is required to make

payments upon the completion of certain clinical milestones and will make royalty payments on sales of any resulting products.

**Eli Lilly & Company.** In May 1997, the Company entered into a corporate collaboration with Lilly to develop gene-based therapeutics using BRCA1, a gene that has been identified as a tumor suppressor in diseased cells in breast and ovarian tissue. Increased expression of the BRCA1 gene in diseased tissue may inhibit or prevent the uncontrolled cell growth associated with cancer, without causing any adverse effect in normal cells.

Under the agreement, Lilly receives exclusive worldwide rights to develop, make, use and sell gene-based therapeutics incorporating BRCA1 and is responsible for conducting clinical trials, large-scale clinical and commercial manufacturing, and sales and marketing. In return, Lilly made an equity investment in the Company and Valentis receives research and development funding, milestone payments if a product is advanced through clinical trials and royalties on sales of any resulting marketed products. In July 1999, the agreement was extended through November 1999 when preclinical work is expected to be substantially completed. At that time, based on the results of preclinical research and development, Lilly will determine if it will extend the agreement and begin clinical testing of BRCA1 gene medicine.

ROCHE HOLDINGS

ELI LILLY & COMPANY

BOEHRINGER INGELHEIM

ONYX PHARMACEUTICALS

GLAXO WELLCOME

DSM BIOLOGICS – QIAGEN

TRANSKARYOTIC THERAPIES

BAYER CORPORATION

**Glaxo Wellcome plc.** In April 1994, the Company entered into a corporate collaboration with Glaxo Wellcome to develop a gene-based therapeutic for the treatment of cystic fibrosis. In a Phase IIa clinical trial completed in October 1998 in cystic fibrosis patients using a Valentis gene delivery system to deliver the CFTR gene to the nasal passages of cystic fibrosis patients, the clinical research team saw no evidence of adverse blood chemistry parameters and no evidence of inflammation as a result of treatment. The Company has completed its obligations under this collaboration and may receive milestones and royalties on any resulting Glaxo product sales. Glaxo is continuing the program at its research facilities in England and Valentis expects no announcements to be made during the course of Glaxo's development work.

**Boehringer Ingelheim International GmbH.** In September 1999, Valentis entered into a collaborative agreement with Boehringer Ingelheim in the field of gene therapy for rheumatoid arthritis. Boehringer Ingelheim and the Company will conduct evaluations of Valentis' proprietary delivery and expression systems in combination with Boehringer Ingelheim's proprietary genes in several animal models of rheumatoid arthritis. Boehringer Ingelheim will provide research support to Valentis for up to 15 months for work performed under the collaboration.

**Transkaryotic Therapies Inc.** In November 1997, PolyMASC and TKT signed a licensing agreement for the development of two PEGylated protein pharmaceuticals. Under the terms of the agreement, TKT will develop the PEGylated proteins and PolyMASC will supply the activated PEG species required to manufacture them. The goal of the collaboration is to develop proteins with an increased circulating half-life, allowing for longer intervals between administrations.

**Onyx Pharmaceuticals Inc.** In June 1997, PolyMASC and Onyx entered into a collaborative agreement to develop a PEGylated version of Onyx's ONYX-015 cancer therapeutic in development, and in April 1999, PolyMASC and Onyx signed a non-exclusive license for PEGylated versions of replicating adenoviruses. Under the agreement, Onyx has the right to develop PEGylated replicating adenoviruses, and PolyMASC will supply the activated PEG species required for manufacturing. The goal is to assist ONYX-015 in treating not only primary tumors but also sites of metastases.

**Bayer Corporation.** In August 1999, PolyMASC and Bayer entered into an agreement whereby Bayer will fund a feasibility study on the development of Factor VIII for hemophilia A using PolyMASC's proprietary ProtoMASC™ technology. The study is being done for Bayer to determine whether to enter into a broader agreement which could lead to clinical and commercial development of a chemically modified Factor VIII.

VALENTIS ACTIVELY MONITORS,  
INVESTIGATES AND LICENSES  
TECHNOLOGIES UNDER  
DEVELOPMENT AT ACADEMIC  
AND OTHER RESEARCH  
INSTITUTIONS. THE COMPANY  
BELIEVES THAT SUCH INSTITU-  
TIONS ARE **AN IMPORTANT  
SOURCE** OF BREAKTHROUGH  
TECHNOLOGIES.

UNIVERSITY OF PITTSBURGH  
MEDICAL CENTER · UNIVERSITY  
OF KUOPIO · UNIVERSITY OF  
COLORADO · NATIONAL JEWISH  
MEDICAL RESEARCH  
CENTER · STANFORD  
UNIVERSITY · VANDERBILT  
UNIVERSITY · BAYLOR  
COLLEGE OF MEDICINE ·  
RUSH PRESBYTERIAN

**DSM Biologics - Qiagen N.V.** In September 1998, Valentis and DSM Biologics announced the formation of a broad, strategic partnership focused on the manufacture and supply of DNA plasmids and lipid:DNA complexes to the entire gene therapy industry. In May 1999, Qiagen N.V. joined the manufacturing alliance. The goal of this alliance is to provide the emerging gene therapy and genetic vaccination industry with early access to a reliable, accepted contract manufacturing services platform.

Valentis is contributing its process technologies and its expertise in DNA formulation and manufacturing to the collaboration. DSM brings experience as a supplier of contract manufacturing services. Qiagen is contributing non-exclusive access to certain of its technologies and its sales and marketing force. The agreement between the parties is intended to be the exclusive vehicle for contract cGMP manufacturing of plasmid and formulated DNA for genetic vaccination and gene therapy purposes. Qiagen has begun marketing these services in lot sizes of up to the 3,000-liter fermentation scale.

Valentis licensed its proprietary manufacturing technology for use in DSM facilities in Montreal, Canada and Groningen, The Netherlands in return for license and milestone fees. DSM, Qiagen and Valentis will share in the profits generated by the sale of material produced using Valentis' process. This arrangement could provide revenue for Valentis in advance of the launch of commercial gene-based products.

Valentis actively monitors, investigates and licenses technologies under development at academic and other research institutions. The Company believes that such institutions are an important source of breakthrough technologies and has entered into, and intends to enter into, additional licensing arrangements to expand its core technologies.

**Regents of the University of California.** *In vivo*, non-viral delivery of genes using positively charged lipids, including delivery by various modes of administration and for use in the treatment of cystic fibrosis. Self-assembling polynucleotide delivery technology that includes lipid and polymer formulations to transport genes across membranes for delivery to their targeted cells and organs, and lyophilized DNA compositions. **Vanderbilt University.** Formulations of cationic lipids and DNA used for gene therapy products and gene-based vaccines that are administered to patients by injection or inhalation. Also the rights to del-1 gene and protein. **National Jewish Medical Research Center.** Non-viral delivery of a cytokine gene and a superantigen gene for the treatment of cancer. **University of Pittsburgh Medical Center.** Viral and non-viral gene-based therapy for rheumatology. **Stanford University.** Delivery of genes that increase nitric oxide levels for the treatment of certain cardiovascular diseases. **Baylor College of Medicine.** Gene therapy technologies related to gene expression, gene delivery and gene regulation technology, including the GeneSwitch™ gene regulation system.

Officers	Board of Directors		Valentis	SEC Form 10-K	High Low																											
Benjamin F. McGraw, III, Pharm.D. President and Chief Executive Officer	Benjamin F. McGraw, III, Pharm.D. President and Chief Executive Officer, Valentis, Inc. and Chairman of the Board		Corporate Headquarters 863A Mitten Road Burlingame, CA 94010 Tel 650 697-1900 Fax 650 652-1990 www.valentis.com	A copy of the Form 10-K filed with the Securities and Exchange Commission can be obtained free of charge, by writing the Company at: 863A Mitten Road Burlingame, CA 94010 Attn: Investor Relations	<table border="1"> <thead> <tr> <th></th> <th>High</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td colspan="3"><b>1997</b></td> </tr> <tr> <td>Third Quarter (from 9/15)</td> <td>\$16.75</td> <td>\$12.37</td> </tr> <tr> <td>Fourth Quarter</td> <td>18.50</td> <td>10.50</td> </tr> <tr> <td colspan="3"><b>1998</b></td> </tr> <tr> <td>First Quarter</td> <td>14.00</td> <td>8.88</td> </tr> <tr> <td>Second Quarter</td> <td>8.88</td> <td>6.38</td> </tr> <tr> <td>Third Quarter</td> <td>8.00</td> <td>4.25</td> </tr> <tr> <td>Fourth Quarter</td> <td>6.94</td> <td>4.00</td> </tr> </tbody> </table>		High	Low	<b>1997</b>			Third Quarter (from 9/15)	\$16.75	\$12.37	Fourth Quarter	18.50	10.50	<b>1998</b>			First Quarter	14.00	8.88	Second Quarter	8.88	6.38	Third Quarter	8.00	4.25	Fourth Quarter	6.94	4.00
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Bennet Weintraub Vice President Finance and Chief Financial Officer	Patrick G. Enright Diaz & Altschul Group, LLC		<b>The Woodlands Site</b>	<b>Transfer Agent</b>	<table border="1"> <thead> <tr> <th></th> <th>High</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td colspan="3"><b>1999</b></td> </tr> <tr> <td>First Quarter</td> <td>6.75</td> <td>4.06</td> </tr> <tr> <td>Second Quarter</td> <td>5.56</td> <td>3.38</td> </tr> <tr> <td>Third Quarter</td> <td>6.50</td> <td>3.75</td> </tr> </tbody> </table>		High	Low	<b>1999</b>			First Quarter	6.75	4.06	Second Quarter	5.56	3.38	Third Quarter	6.50	3.75												
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Rodney Pearlman, Ph.D. Sr. Vice President Research and Development	Russell M. Hirsch, M.D., Ph.D. Mayfield Fund		8301 New Trails Drive The Woodlands, TX 77381-4248 Tel 281 364-1150 Fax 281 364-0858	Boston Equiserve Stockholder Services Division PO Box 8040 Boston, MA 02266-8040 Tel 781 575-2000	As of September 30, 1999 there were approximately 752 stockholders of record of the Company's Common Stock.																											
Kenneth Lynn Sr. Vice President Business Development and Legal Affairs	Raju Kucheralapati, Ph.D. Albert Einstein College of Medicine		<b>PolyMASC Pharmaceuticals</b>	<b>Independent Auditors</b>	Statements in this annual report that are not strictly historical are "forward look - ing" statements as defined in the Private Securities Litigation Reform Act of 1995. There can be no assurance that Valentis will be able to develop a com- mercially viable gene-based therapeutic, that any of the programs will be part- nered with a pharmaceutical partner, that necessary regulatory approvals will be obtained or that any clinical trials will be successful. The actual results may differ from those projected in the forward-looking statement due to risks and uncertainties that exist in the Company's operations and business envi- ronment. These are described more fully in the Valentis Annual Report on Form 10-K for the year ended June 30, 1999, filed with the Securities and Exchange Commission.																											
Kathryn Stankis Vice President Human Resources	Bert O'Malley, M.D. Baylor College of Medicine		Fleet Road London NW3 2EZ United Kingdom Tel 44 171-284-3141 Fax 44 171-284-2212 www.polymasc.com	Ernst & Young LLP																												
Alain Rolland, Pharm.D., Ph.D. Vice President Research and Development	Stanley T. Crooke, M.D. Isis Pharmaceuticals		<b>Corporate Counsel</b>	<b>Common Stock Market Prices</b>																												
Denny Liggitt, DVM, Ph.D. Vice President Pharmacology and Toxicology	Gillian E. Francis, M.B., B.S., D.Sc., M.Sc. PolyMASC Pharmaceuticals		Cooley Godward LLP Palo Alto, CA	Valentis, Inc. common stock is listed on the Nasdaq National Market System under the symbol VLTS. The Company's Common Stock began trading on September 15, 1997. The follow- ing table presents the quarterly high and low closing sales prices as quoted by NASDAQ.																												
			<b>Annual Meeting</b> Tuesday, December 7, 1999 10:00 am Valentis, Inc. 863A Mitten Road Burlingame, CA 94010																													



VALENTIS, INC.

Valentis, Inc.  
863A Mitten Road  
Burlingame, CA 94010  
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[www.valentis.com](http://www.valentis.com)

Design: Caltan & Associates, San Francisco