

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT: FEBRUARY 3, 1999
(Date of earliest event reported)

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

DELAWARE 0-27488 94-3136539
(State or other jurisdiction (Commission (IRS Employer
of incorporation) File Number) Identification No.)

3174 PORTER DRIVE, PALO ALTO, CALIFORNIA 94304
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (650) 855-0555

Item 5. Other Events.

Attached hereto as Exhibit 99.1 and incorporated by reference herein is the press release dated February 3, 1999 setting forth financial information for Incyte Pharmaceuticals, Inc. (the "Company") for the quarter and year ended December 31, 1998, and forward-looking statements relating to the Company's financial targets for 1999, and announcing the Company's decision not to pursue its proposed tracking stock recapitalization that was announced in August 1998.

Item 7. Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release dated February 3, 1999.

SIGNATURE

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

Dated: February 5, 1999

INCYTE PHARMACEUTICALS, INC.

By /s/ Denise M. Gilbert

Name: Denise M. Gilbert

Title: Executive Vice President and
 Chief Financial Officer

FOR IMMEDIATE RELEASE

Contact: Denise Gilbert Dayna Wheeler
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INCYTE REPORTS YEAR-END RESULTS AND 1999 FINANCIAL TARGETS
ANNOUNCES DECISION NOT TO PURSUE TRACKING STOCK VEHICLE

PALO ALTO, CALIFORNIA, FEBRUARY 3, 1999 -- Incyte Pharmaceuticals, Inc. (Nasdaq: INCY) today reported revenues of \$134.8 million and a net income of \$3.5 million or \$0.12 per diluted share for the year ended December 31, 1998. Excluding one-time charges related to the Synteni and Hexagen acquisitions, Incyte reported net income of \$15.5 million or \$0.54 per diluted share for the year ended December 31, 1998. Revenues increased 50% from the \$90.0 million reported for calendar 1997. Net income and earnings per share excluding one-time charges increased more than 100% from \$6.9 million and \$0.26 per diluted share, respectively, for the year ended December 31, 1997. Excluding the impact of the programs contained within the Incyte Genetics business unit announced in August 1998 and the one-time charges, net income would have been \$23.2 million or \$0.80 per diluted share.

For the quarter ended December 31, 1998, Incyte reported revenues of \$36.6 million resulting in net income of \$1.5 million or \$0.05 per diluted share. This represents an increase of approximately 35% in revenues and a decrease in net income and diluted earnings per share from \$3.1 million and \$0.11 per diluted share reported for the fourth quarter of 1997. The net income for the quarter and year ended December 31, 1998 were impacted by the ramp up in expenses related to the genomic sequencing and single nucleotide polymorphism (SNP) discovery programs previously attributed to the Incyte Genetics business unit. Excluding the impact of this business unit, net income would have been \$6.9 million or diluted earnings per share of \$0.23 for the quarter ended December 31, 1998.

Revenues were driven predominantly by database subscriptions, which increased approximately 40% to \$105.6 million. Reagent revenues generated by the Company's Genome Systems subsidiary increased 75% to \$8.8 million. Microarray service revenues, fueled by the growth of the Synteni business acquired in January 1998, ended the year at \$8.0 million. Incyte signed five major new multi-year microarray collaborations in 1998 with Amgen, Monsanto, Novartis, Schering-Plough and Zeneca. Only the Monsanto microarray agreement had a significant impact on 1998 revenues with the remaining agreements expected to impact revenues in 1999. The remaining revenues were attributed to software license revenues, contract sequencing and intellectual property related license fees.

During the fourth quarter of 1998 Incyte announced two major combined microarray and database partnerships, one with Schering Plough focusing on pharmaceutical applications and a second with Zeneca focusing on agricultural applications. In addition to access to Incyte microarray services, Schering-Plough will have multi-year access to the LifeSeq gene sequence and expression database and the LifeSeq FL database of full-length genes. Zeneca will have multi-year access to Incyte's PhytoSeq database which will contain sequence information from a range of agriculturally important crops including wheat, maize and rice. In January 1999, Incyte announced that Pharmacia & Upjohn expanded their existing genomic database agreement to include Incyte's PathoSeq database containing genomic information for over 40 bacterial and fungal microorganisms.

Today Incyte also announced the renewal of two of its database partnerships. Abbott Laboratories renewed its LifeSeq database subscription and added a microarray access agreement. The second agreement, with Johnson & Johnson, represents a major expansion that gives Johnson & Johnson access to the broad portfolio of Incyte database and software products including the new LifeSeq Gold assembled database, the LifeSeq Atlas mapping database and the ZooSeq animal database. Johnson & Johnson will continue to have access to the PathoSeq database added in March 1998.

On the patent front, during the fourth quarter Incyte was granted an exclusive license to a pioneering patent from the Montefiore Medical Center which includes claims covering methods for measuring gene expression using a defined array (Patent No. 4,981,783). In addition, Incyte was issued its first expressed sequence tag (EST) patent covering ESTs encoding 44 novel protein kinases (Patent No. 5,817,479). Finally, in January 1999, the United States Patent and Trademark Office notified Incyte that the claims of a two-color hybridization

patent licensed exclusively to Incyte were allowable and as a result recommended that an interference be declared with Patent No. 5,800,992 assigned to Affymetrix, Inc.

TRACKING STOCK

Separately Incyte announced that it will not pursue a tracking stock vehicle to finance the programs of the new business unit, Incyte Genetics, announced in August 1998. The adoption of an accelerated time frame for the human genomic sequencing and mapping programs, coupled with the reduced cost estimates and the projected positive cash flow from its database business, have given Incyte the ability to finance the programs designated for Incyte Genetics from current financial resources.

"We are very encouraged by the results of the first four months' of the genome-wide sequencing and mapping initiatives announced in August," said Randy Scott, Ph.D., President and Chief Scientific Officer of Incyte. "The strategy of targeting gene-rich segments of the human genome based on the competitive advantage afforded Incyte by our LifeSeq database has surpassed our expectations for enhanced gene discovery compared to conventional random shotgun sequencing. We now have identified the 5' and 3' ends of approximately 110,000 human genes. Our goal is now to have sequenced, mapped and filed for intellectual property on the novel and most commercially relevant genes by the second half of the year 2000."

"We are very pleased that Incyte can pursue its mapping and genomic sequencing programs to completion without creation of the tracking stock vehicle" said Roy A. Whitfield, Chief Executive Officer of Incyte. "Further, we can avoid the risk that the tracking stock vehicle would threaten Incyte's ability to use pooling of interests accounting for acquisitions and therefore limit our ability to continue with our aggressive merger and acquisition strategy, and not incur the complexity and administrative costs associated with a tracking stock vehicle."

1999 TARGETS

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially. These statements do not reflect the potential impact of any mergers or acquisitions that may be completed after the date of this release.

Incyte currently expects revenues to increase 40% in 1999 to approximately \$190 million. This includes an increase of 25-30% in database subscription revenues. Microarray service revenues are expected to make a significant contribution increasing from less than 10% of revenues in 1998 to approximately 15-20% of total revenues in 1999.

During 1999 Incyte plans to invest approximately \$45 million in the genomic sequencing, mapping, SNP discovery programs and related patent filings previously attributed to Incyte Genetics. As a result the Company expects to report a loss of approximately \$20 million for 1999. The Company currently plans to return to profitability in the second half of 2000 driven both by the reduction in expenses as the genomic sequencing and mapping programs reach completion and due to growth in database, microarray service and other revenues.

"1999 will be a year of aggressive investment at Incyte as we take advantage of our leadership position in genomic sequencing to capture the commercial return from being the first to map and sequence the commercially relevant sections of the human genome," commented Roy A. Whitfield, Incyte's Chief Executive Officer of Incyte. "This significant short-term investment, coupled with the expansion of manufacturing capabilities for Incyte's growing microarray service and expression database business, will result in a net loss for 1999. We expect to enter the year 2000 with a strong balance sheet, poised to return to profitability in the second half of the year."

Incyte Pharmaceuticals, Inc. is a leading provider of an integrated platform of genomic technologies designed to aid in the understanding of the molecular basis of disease. Incyte develops and markets genomic information-based tools including sequence and expression databases, genomic data management software, microarray-based gene expression services, and related reagents. These products and services assist the pharmaceutical and biotechnology industries in all phases of drug discovery and development. For more information, visit Incyte's web site at www.incyte.com.

Except for the historical information contained herein, the matters set forth in this press release, including statements as to expected revenues from microarray collaborations, projected positive cash flow from the company's database

business, expected profitability, revenue targets, expected expenditure levels in new programs, the adequacy of capital resources, the ability and time to complete the sequencing and mapping of the human genome, and the statements under the subheading "1999 Targets" are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including the extent of utilization of genomic information by the biotechnology, pharmaceutical and agricultural industries; risks relating to the development of new products and their use by potential collaborators; the ability to implement technological improvements; the impact of alternative technological advances and competition; the ability of the Company to obtain and retain customers; early termination of a database collaboration agreement or failure to renew an agreement upon expiration; developments in and expenses relating to litigation; uncertainties related to the issuance and enforcement of patents; the ability to obtain results from genomic sequencing operations at levels at least equivalent to those obtained during the past four months. and other risks detailed from time to time in Incyte's SEC reports, including its Quarterly Report on Form 10-Q for the quarter ended September 30, 1998. Incyte disclaims any intent or obligation to update these forward-looking statements.

INCYTE PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31, 1998(1)	DECEMBER 31, 1997(1)
	-----	-----
Assets		
Cash and cash equivalents	\$ 50,048	\$ 55,598
Restricted cash	-	6,000
Marketable securities - available-for-sale	61,185	57,497
Accounts receivable, net	14,318	19,983
Prepaid expenses and other current assets	5,813	3,836
	-----	-----
Total current assets	131,364	142,914
Property and equipment, net	54,429	38,070
Long-term investments	20,653	14,800
Goodwill and other intangible assets	16,955	-
Deposits and other assets	6,889	3,305
	-----	-----
Total assets	\$ 230,290	\$ 199,089
	=====	=====
Liabilities and Stockholders' Equity		
Accounts payable	\$ 8,244	\$ 5,791
Accrued and other current liabilities	7,843	5,416
Accrued compensation	4,786	3,192
Due to joint venture	-	6,000
Deferred revenue	29,054	31,815
	-----	-----
Total current liabilities	49,927	52,214
Non-current liabilities	796	1,173
	-----	-----
Total liabilities	50,723	53,387
	-----	-----
Total stockholders' equity	179,567	145,702
	-----	-----
Total liabilities and stockholders' equity	\$ 230,290	\$ 199,089
	=====	=====

(1)The condensed consolidated balance sheets has been derived from the audited financial statements at that date

INCYTE PHARMACEUTICALS, INC.
 CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	Incyte General Three Months Ended December 31,		Incyte Genetics Three Months Ended December 31,	
	----- 1998	----- 1997	----- 1998	----- 1997
x				
Revenues	\$35,779	\$26,922	\$ 868	\$ 425
Research and development	22,737	20,679	4,874	746
Selling, general and administrative	6,593	3,965	1,649	81
Total operating expenses	----- 29,330	----- 24,644	----- 6,523	----- 827
Income (loss) from operations	6,449	2,278	(5,655)	(402)
Interest and other income, net	1,780	1,735	(14)	-
Losses from joint venture	-	-	(834)	(300)
Income (loss) before income taxes	----- 8,229	----- 4,013	----- (6,503)	----- (702)
Provision (benefit) for income taxes	1,374	248	(1,133)	(13)
Net income (loss)	----- \$ 6,855	----- \$ 3,765	----- \$(5,370)	----- \$(689)
	=====	=====	=====	=====
Supplemental pro forma diluted net income per share(2)	\$ 0.23	\$ 0.13		

	Incyte Consolidated Three Months Ended December 31,	
	----- 1998	----- 1997(1)
Revenues	\$36,647	\$27,347
Research and development	27,611	21,425
Selling, general and administrative	8,242	4,046
Total operating expenses	----- 35,853	----- 25,471
Income (loss) from operations	794	1,876
Interest and other income, net	1,766	1,735
Losses from joint venture	(834)	(300)
Income (loss) before income taxes	----- 1,726	----- 3,311
Provision (benefit) for income taxes	241	235
Net income (loss)	----- \$ 1,485	----- \$ 3,076
	=====	=====
Basic net income per share	\$ 0.05	\$ 0.12
Diluted net income per share	\$ 0.05	\$ 0.11
Basic shares	27,782	26,118
Diluted shares	29,338	28,399

(1) Restated to reflect the acquisition of Synteni, Inc., which was accounted for as a pooling of interests.

(2) The supplemental pro forma net income per share are computed assuming all existing common stock is redesignated as Incyte General Stock on a one-for-one basis. As discussed in the text of this press release, the Company has decided not to proceed with the tracking stock recapitalization. Because the Incyte

General and Incyte Genetics business units will be combined, the Company will not publish separate financial information relating to those units after this date.

INCYTE PHARMACEUTICALS, INC.
 CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	Incyte General Twelve Months Ended December 31,		Incyte Genetics Twelve Months Ended December 31,	
	1998	1997	1998	1997
Revenues	\$132,041	\$88,863	\$ 2,770	\$ 1,133
Research and development	89,036	70,152	8,156	2,300
Selling, general and administrative	22,487	13,715	2,951	213
Charge for in-process R&D	-	-	10,978	-
Acquisition-related charges	1,171	-	-	-
	-----	-----	-----	-----
Total operating expenses	112,694	83,867	22,085	2,513
Income (loss) from operations	19,347	4,996	(19,315)	(1,380)
Interest and other income, net	7,280	4,140	(14)	-
Losses from joint venture	-	-	(1,474)	(300)
	-----	-----	-----	-----
Income (loss) before income taxes	26,627	9,136	(20,803)	(1,680)
Provision (benefit) for income taxes	4,448	582	(2,096)	(34)
	-----	-----	-----	-----
Net income (loss)	\$ 22,179	\$ 8,554	\$(18,707)	\$(1,646)
	=====	=====	=====	=====
Net income excluding acquisition charges	\$ 23,239			
Basic net income per share				
Diluted net income per share				
Supplemental pro forma diluted net Income per share	\$ 0.77	\$ 0.32		
Supplemental pro forma diluted net income Per share excluding acquisition charges(2)	\$ 0.80			

	Incyte Consolidated Twelve Months Ended December 31,	
	1998	1997(1)
Revenues	\$134,811	\$89,996
Research and development	97,192	72,452
Selling, general and administrative	25,438	13,928
Charge for in-process R&D	10,978	-
Acquisition-related charges	1,171	-
	-----	-----
Total operating expenses	134,779	86,380
Income (loss) from operations	32	3,616
Interest and other income, net	7,266	4,140
Losses from joint venture	(1,474)	(300)
	-----	-----
Income (loss) before income taxes	5,824	7,456
Provision (benefit) for income taxes	2,352	548
Net income (loss)	\$ 3,472	\$ 6,908
	=====	=====
Basic net income per share	\$ 0.13	\$ 0.28
Diluted net income per share	\$ 0.12	\$ 0.26

Basic shares	26,921	24,300
Diluted shares	28,899	26,498

Net income excluding acquisition charges	\$ 15,510
Basic net income per share	\$ 0.58
Diluted net income per share	\$ 0.54

(1) Restated to reflect the acquisition of Synteni, Inc., which was accounted for as a pooling of interests.

(2) The supplemental pro forma net income per share are computed assuming all existing common stock is redesignated as Incyte General Stock on a one-for-one basis. As discussed in the text of this press release, the Company has decided not to proceed with the tracking stock recapitalization. Because the Incyte General and Incyte Genetics business units will be combined, the Company will not publish separate financial information relating to those units after this date.