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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 0-27488

INCYTE CORPORATION

(Formerly known as Incyte Genomics, Inc.)
(Exact name of registrant as specified in its charter)

Delaware	**94-3136539**
(State of other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
3160 Porter Drive, Palo Alto, California 94304	**(650) 855-0555**
(Address of principal executives offices)	**(Registrant's telephone number, including area code)**

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.001 per share
Series A Participating Preferred Stock Purchase Rights

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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) 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. ☒

Indicate by check mark whether the registrant is an accelerated filer. Yes ☒ No ☐

The aggregate market value of Common Stock held by non-affiliates (based on the closing sale price on the Nasdaq National Market on June 28, 2002) was approximately $511.8 million.

As of March 14, 2003, there were 70,796,152 shares of Common Stock, $.001 per share par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors and Section 16(a) Beneficial Ownership Reporting Compliance), 11, 12 and 13 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2003 Annual Meeting of Stockholders to be held on June 23, 2003.

Item 1. ***Business***

When used in this Report, the words "expects," "anticipates," "intends," "estimates," "plans," "believes," and similar expressions are intended to identify forward-looking statements. These statements, which include statements as to expected expenses and expenditure levels; expected revenues and sources of revenues; expected uses of net cash; expected losses and net losses; expected expenditures including expenditures on intellectual property and research and development; the offset of profits from certain products by other expenditures; the adequacy of capital resources; the expected effect of our contractual obligations on our future liquidity and cash flow; our plans to reduce expenditures in 2003 and the expected spending reductions, workforce reductions and office consolidations; our strategic investments, including anticipated losses and expenses; the application of U.S. Patent and Trademark Office utility guidelines to our gene patent applications; costs associated with prosecuting, defending and enforcing patent claims and other intellectual property rights; the size of our intellectual property portfolio and its competitive position; our approach to discovery research; the usefulness of certain antagonists; our ability to successfully facilitate the identification and development of novel drug therapies through our drug discovery efforts; expectation that our information product line assets will help drive co-development and collaborative opportunities for our drug discovery efforts; our strategy with regard to protecting our intellectual property; the effect of pharmaceutical and biotechnology company consolidations, including reduced research and development spending and pricing constraints by pharmaceutical and biotechnology customers and the softening of the market for genomic information and the market for our information products; the effect of our pharmaceutical and biotechnology customers' focus on late stage research and clinical products on the pricing of, and the length of contractual commitment for, our information products; the expected growth of, and our ability to manage expansion of, our therapeutic discovery and development operations, including operations in multiple locations; our competitive advantage; future required government approvals of our products prior to commercialization; future required expertise relating to clinical trials, manufacturing, sales and marketing and for licenses to technology rights; the commercial availability of drugs resulting from our research; our reliance on our key personnel; are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those risks discussed below, as well as the extent of utilization of genomic information by the biotechnology and pharmaceutical industries; actual and future consolidations of pharmaceutical and biotechnology companies; continuing trends with respect to reduced pharmaceutical and biotechnology research spending; our ability to manage our information products on a cash flow positive basis; risks relating to the development of new products and their use by our potential collaborators; the impact of technological advances and competition; unanticipated delays in research and development efforts; the result of further research; the number of employees entitled to receive severance benefits or other costs to be recognized in connection with the expense reduction program; our ability to consolidate our facilities and to close, assign or sublease facilities upon anticipated timelines; our ability to deliver products and services to our customers effectively with reduced headcount and management and key employee diversion; our ability to obtain and retain customers; competition from other entities; early termination of a database collaboration agreement or failure to renew an agreement upon expiration; the cost of accessing or acquiring technologies developed by other companies; significant delays or costs in obtaining regulatory approvals; failure to obtain regulatory approval; uncertainty as to the scope of coverage, enforceability or commercial protection from patents that issue on gene and other discoveries; our ability to integrate Maxia's operations and programs successfully; our ability to obtain patent protection for our discoveries and to continue to be effective in expanding our patent coverage; the impact of changing laws on our patent portfolio; developments in and expenses relating to litigation; the results of businesses in which we have purchased equity; and the matters discussed in "Factors That May Affect Results." These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

In the sections of this report entitled "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Affect Results," all references to "Incyte," "we," "us" or "our" mean Incyte Corporation and its subsidiaries.

Incyte, LifeSeq, BioKnowledge and ZooSeq are our registered trademarks. We also refer to trademarks of other corporations and organizations in this document.

Overview

Incyte is a drug discovery company that develops proprietary genomic information and applies its expertise in medicinal chemistry and molecular, cellular and in vivo biology to the discovery of novel small molecule and protein therapeutics. We believe we have created the largest commercial portfolio of issued United States patents covering human, full-length genes and the proteins they encode, and license this intellectual property, as well as market our genomic and proteomic information, to many of the world's leading pharmaceutical and biotechnology companies and academic research centers. We have assembled an experienced and talented drug discovery team that is identifying potential new drug therapies for cancer, inflammatory diseases and other medical conditions.

During 2001, we turned our focus to our therapeutic discovery and development programs and our information products. Our current products include information databases, intellectual property licensing, and certain other products, such as full-length clones.

Our databases integrate bioinformatics software with proprietary and, when appropriate, publicly available genomic information. In developing our databases, we utilize high-throughput, computer-aided gene sequencing and analysis technologies to identify and characterize the expressed genes of the human genome, as well as certain animal genomes. By searching our proprietary genomic databases, customers can integrate and analyze genomic information from multiple sources to discover genes that may represent the basis for new drug targets, therapeutic proteins, antisense or diagnostic products. Our products can be applied to gene and target discovery, functional genomics studies, preclinical pharmacology and toxicology studies, and can aid in understanding and analyzing the results of clinical development studies.

We provide access to our databases to pharmaceutical and biotechnology companies and academic institutions worldwide. In addition, customers may access select databases online via our website. As of December 31, 2002, we had agreements with more than 100 customers for one or more of the products shown below to obtain access to our databases on a non-exclusive basis. Revenues from these companies have primarily consisted of database access fees. Some of our agreements also provide for future milestone payments and royalties from the development and sale of products derived from proprietary information contained in one or more database modules.

Our portfolio of database products and services includes:

- LifeSeq® Foundation;
- ZooSeq®;
- Bioknowledge® Library; and
- DrugMatrix™.

The databases are available using the XML data files or flat files, which can be integrated into local customer databases and tools, or used in conjunction with third-party software tools. Online delivery of certain database products is available from our website at www.incyte.com.

We are also generating revenue from licenses to a range of intellectual property, owned by or exclusively licensed by Incyte, covering genomic technologies and our portfolio of patents claiming genes, proteins and antibodies. Revenues derived from genomic technology licenses are primarily related to microarray fabrication and gene expression.

Revenues are also generated from the licensing of our extensive gene patent portfolio for use by genomic “tool” and service providers, such as microarray product manufacturers. As part of this licensing strategy, our license agreements with some of our licensees provide that we will receive royalties on sales of commercial products developed by those licensees.

Background

All living cells contain DNA comprised of two strands of complementary molecules. These molecules, called poly-nucleotides, are strung together in specific patterns to create genes. Genes provide the necessary information to create proteins, the molecules that carry out all functions within a cell. Many human diseases are associated with the inadequate or inappropriate presence, production or performance of proteins. As such, pharmaceutical and biotechnology companies often seek to develop drugs that will bind to a targeted protein involved in disease in order to regulate, inhibit or stimulate its biological activity. Other proteins, known as therapeutic proteins, have direct biological activity and may be capable of treating disease. Insulin and human growth hormone are examples of therapeutic proteins. Understanding the role genes play in disease, and the protein targets or therapeutic proteins that they encode, has thus become a significant area of interest and research within the pharmaceutical and biotechnology industries.

Sequencing

DNA sequencing is a process that identifies the order in which nucleotides are strung together in a segment of DNA. Once the sequence of a gene is known, the function of the gene may be inferred by comparing its sequence with the sequences of other human genes of known function, or it may be determined through use of other technologies. Genes with similar, or homologous, sequences are likely to have related functions. Comparing gene sequences across species is also a useful tool for understanding gene function, as frequently it is easier to first assess gene function in other organisms.

Single Nucleotide Polymorphism

The most common form of gene sequence variation is known as a single nucleotide polymorphism, or SNP. A SNP is defined as a single nucleotide difference within the same DNA region between two individuals. Genetic variation may cause individuals to respond differently to disease or treatment with the same drug. Few, if any, FDA-approved drugs can successfully treat every individual diagnosed with a targeted disease. The differences in patients’ responses to a drug are believed to result in part from differences in the sequence of nucleotides within genes.

Proteomics

Proteomics is a relatively new field of study that involves the separation, identification, and characterization of proteins present in a biological sample. By comparing disease and control samples, it is possible to identify disease-specific proteins. These may have potential as targets for drug development or as molecular markers of disease.

Chemogenomics

Chemogenomics is a field of study bridging genomics into chemistry for drug discovery and development to understand and predict broad compound interaction and influence biological pathways and physiology.

Gene Expression Technology

Microarray technology can be used to analyze the expression patterns in a large number of genes simultaneously. A microarray consists of fragments of DNA attached to a surface in a grid-like formation. When

fragments of DNA from normal and diseased cells are applied to the microarray, complementary strands attach to each other. Microarray technology allows the fabrication of very small grids containing probes for thousands of different genes. Microarrays can be used in drug discovery and development, to evaluate the behavior of a large number of related genes in a diseased tissue or in response to treatment with a new drug or in diagnostic testing to quickly detect the presence of a large number of disease markers.

Products and Services

Therapeutic Discovery and Development

In addition to offices and laboratories located at our headquarters in Palo Alto, California, we maintain research facilities in Newark, Delaware and San Diego, California dedicated to the discovery and development of new medicines to treat cancer, inflammatory, metabolic and other diseases. Our scientific staff are applying their expertise in medicinal, combinatorial and high speed chemistry, pharmacology, drug metabolism, molecular and cell biology and other disciplines to identify novel small molecule and protein therapeutics. We believe our highly-focused approach to discovery research and our integration of chemistry and biology with the latest research tools and techniques, such as gene cloning, gene knockouts in vitro and in vivo, high-throughput screening, molecular modeling and protein x-ray crystallography, will facilitate the identification and development of novel drug therapies.

Drug Discovery Programs. By January 2003, we had launched three full-scale small molecule drug discovery programs: one in inflammation and two in cancer. Small molecule therapeutics offer some advantages over large molecules such as proteins, peptides and monoclonal antibodies as they are often administered orally on an outpatient basis and can be produced by conventional pharmaceutical manufacturing methods with the potential for greater efficiencies than large molecule drugs. The most advanced of these programs is focused on a class of proteins, known as chemokines, which has potential utility in treating inflammatory diseases. We are pursuing chemokine receptor antagonists that are orally active and may prevent tissue damage from the action of inflammatory cells known as macrophages. We believe these antagonists may be clinically useful in treating inflammatory conditions characterized by excessive macrophage activity such as rheumatoid arthritis, atherosclerosis, asthma and multiple sclerosis. We are currently testing novel chemokine antagonists in animal disease models and have applied for patents on these compounds.

Our research programs in cancer are targeting proteases and phosphatases that may prevent the proliferation of cancer cells in diseases such as breast, lung and colon cancer. Our scientists are applying their understanding of how these enzymes control the activities of other proteins that drive uncontrolled cell proliferation and how over-expression of phosphatase genes can be linked to cancer. Our scientists are targeting phosphatases to develop proprietary small molecule therapeutics.

Preclinical Drug Development. We acquired several compounds already in development through our acquisition of Maxia Pharmaceuticals, Inc., including a program focused on new approaches to treat Type 2 diabetes. The first of these compounds, which are novel insulin sensitizers, is in late preclinical testing. We completed our acquisition of Maxia Pharmaceuticals, a privately held company based in San Diego, California, in February 2003.

Information Products

Databases. We provide our database collaborators with non-exclusive database access. Database collaborators generally receive periodic data updates and additional search and analysis tools as available. Search and analysis tools are also available to our collaborators from a third-party vendor. The fees and the period of access to our database information are negotiated independently with each company. Fees payable by pharmaceutical and biotechnology collaborators generally consist of non-exclusive or exclusive fees corresponding to patent rights on proprietary genes and proteins. We also provide access to our database to third parties who use the database to develop genomic tools, such as microarrays that require genetic content, which

they in turn sell to pharmaceutical and biotechnology researchers. We may also receive future milestone and royalty payments from database collaborators from the development and sale of their products derived from our technology and database information. Using our databases and the available tools, researchers can browse not only Incyte-generated data, but also public domain information. Customers may also access select Incyte-hosted databases online via our website. We currently offer the following database products:

- *LifeSeq Foundation Database.* Our new flagship database, LifeSeq Foundation, was built to serve the evolving needs of the biopharmaceutical industry. It moves *in silico* research down the drug discovery pipeline from target discovery toward target validation, the current bottleneck in drug discovery. It provides access to high quality, hand-edited, full-length genes from gene families that historically have provided the most promising drug targets. In addition, LifeSeq Foundation allows the researcher to understand quickly the function and biology of a gene using proprietary SNPs, ribonucleic acid (RNA) expression, and a hand-curated summary of published literature. In addition, proprietary bioinformatics has allowed us to identify thousands of putative secreted genes and gene splice variants that have the potential to be novel protein therapeutics, which information is also included in LifeSeq Foundation. All of this data is anchored to the human genome to give a comprehensive, stable reference to the transcribed human genome. LifeSeq Foundation enables a rapid transition from the database to lab experiments with access to thousands of full-length clones. Moreover, integration with proprietary rat and mouse homologs from the ZooSeq database allows detailed functional experiments in disease models.
- *ZooSeq Database.* The ZooSeq multi-species gene sequence database provides genetic data for animal model organisms used in drug discovery, drug development and testing, and gene discovery. With rat, mouse, monkey, and dog animal models currently available, ZooSeq enables individual and cross-species comparison of genes. This information can help uncover previously unknown homologs of human disease-relevant genes, improve understanding of disease pathways, and provide a basis for optimizing drug selection before moving on to expensive human clinical trials. ZooSeq data is accessed from a browser-based interface that provides point-and-click control of analysis tools included with the database.
- *BioKnowledge Library.* The BioKnowledge Library is composed of six database volumes containing fundamental biological information about proteins, with each volume focused on different organisms important to pharmaceutically relevant biological research. Using proprietary processes, we sift relevant biological literature for curation into our products with manual, expert based literature annotation of the human, mouse, rat, worm and fungal proteomes. The data are then presented in a simple format that offers flexibility and time savings over traditional library research. Weekly updates are provided as new information is published. An extensive and comprehensive hierarchical classification system is utilized to describe protein activity, biological role and cellular location. We provide a search and data export application for performing genome scale biological based analysis within the BioKnowledge Library. Access to thousands of independent research results offers the advantage of reduced library research time and potentially faster progression through discovery pathways.
- *DrugMatrix Database.* DrugMatrix is the result of a collaboration between Incyte and Iconix Pharmaceuticals, Inc., together with development partner MDS Pharma Services, Inc. DrugMatrix is a comprehensive research tool in the emerging field of chemogenomics that is designed to enable researchers to select quality leads and drug candidates at an early stage of drug discovery and development, which can lead to cost savings. DrugMatrix brings together the previously isolated fields of chemistry, genomics, toxicology and pharmacology in a single environment, providing a research tool that enables pharmaceutical researchers to ask questions in new ways to help predict the potential success, failure or positioning of therapeutic programs. DrugMatrix integrates approved pharmaceuticals and failed drug molecules by profiling them in tens of thousands of standardized gene expression microarray and molecular pharmacology experiments. In addition, it is supported with scientific literature annotation on known drug pharmacology, toxicology, and pathway interactions. The chemogenomic content of DrugMatrix utilizes a three-tier database architecture, with a web-based user

interface and bio- and chemoinformatics tools, to facilitate access and data mining, and is designed to aid medicinal chemists, pharmacologists and toxicologists in accelerating drug discovery through drug lead optimization and reduction of drug candidate failure in clinical trials.

Discontinued Products and Services

We recognized revenue in 2002 from the following product that we no longer offer:

- *LifeSeq Gold Database.* The LifeSeq Gold database contained more than 7.5 million sequences—5.5 million of which are proprietary to Incyte—representing more than 90% of the human genes. These sequences came from more than 1,500 different libraries from both normal and diseased tissue, including many libraries biased toward rare genes and alternate splice variants, which are variations of known genes that can be similar to, but longer, shorter, or of the same length but of a different sequence from the known gene. More than 1,100 of the libraries in LifeSeq Gold were proprietary to Incyte. The database also contained public domain genomic data that had been curated and aligned with our gene transcript data using our proprietary informatics processes and sequences corresponding to rare genes. Current LifeSeq Gold subscribers were converted to LifeSeq Foundation.

In addition, in 2001, we exited the following activities: genomic screening products, public domain clone products and related services, transgenic products and services and SNP discovery services. Revenue from these product offerings was recognized in 2000, 2001 and 2002 associated with the wind down of these activities.

Database Production

We engage in the high-throughput automated sequencing of genes derived from tissue samples followed by the computer-aided analysis of each gene sequence to identify homologies to genes of known function in order to predict the biological function of newly identified sequences. The derivation of information in our databases that include gene sequences involves the following steps:

- *Tissue Access*. We obtain tissue samples representing most major organs in the human body from various academic and commercial sources. Where possible, we obtain information as to the medical history and pathology of the tissue. The genetic material is isolated from the tissue and prepared for analysis. The results of this analysis, as well as the corresponding pathology and medical history information, are incorporated into the databases.
- *High-Throughput cDNA Sequencing.* We utilize specialized teams in an integrated approach to our high-throughput sequencing and analysis effort. One team develops and prepares cDNA libraries from biological sources of interest, a second team prepares the cDNAs using robotic workstations to perform key steps that result in purified cDNAs for sequencing, and a third team operates the automated DNA sequencers.
- *Bioinformatics.* Sequence information generated from our high-throughput sequencing operations is uploaded to a network of servers. Our proprietary bioinformatic software then assembles and edits the sequence information. The sequence of each cDNA is compared via automated, computerized algorithms to the sequences of known genes in our databases and public domain databases to identify whether the cDNA codes for a known protein or is homologous to a known gene. Each sequence is annotated as to its cell or tissue source, its relative abundance and whether it is homologous to a known gene with known function. The bioinformatics staff monitors this computerized analysis and may perform additional analyses on sequence information. The finished data are then added to our proprietary sequence databases.

Patents and Proprietary Technology

Our ability to license proprietary genes may be dependent upon our ability to obtain patents, protect trade secrets and operate without infringing upon the proprietary rights of others. We rely on patent, trade secret and

copyright law, as well as nondisclosure and other contractual arrangements, to protect our intellectual property. Other pharmaceutical, biotechnology and biopharmaceutical companies, as well as academic and other institutions, have filed applications, may have been issued patents or may obtain additional patents and proprietary rights, relating to products or processes competitive to our products or processes. Patent applications filed by competitors may claim some of the same gene sequences or partial gene sequences as those claimed in patent applications that we file. We are aware that some entities have made, or have announced their intention to make, gene sequences publicly available. Publication of sequence information may adversely affect our ability to obtain patent protection for sequences that have been made publicly available.

Our current policy is to file patent applications on what we believe to be novel full-length genes obtained through our high-throughput computer-aided gene sequencing and characterization efforts. We have filed U.S. patent applications in which we have claimed certain partial gene sequences and have filed patent applications in the U.S. and applications under the Patent Cooperation Treaty ("PCT"), designating countries in Europe as well as Canada and Japan, claiming full-length genes associated with cells and tissues that are the subject of our high-throughput gene sequencing program. To date, we hold over 500 U.S. patents with respect to human full-length genes and one issued U.S. patent claiming multiple partial genes expiring between April 2008 and November 2021. Currently, we have no registered copyrights for our database-related software.

In 1996, the United States Patent and Trademark Office issued guidelines limiting the number of genes that can be examined in a single patent application. Many of our patent applications containing multiple genes or partial genes contain more than the maximum number allowed under the new guidelines. We are reviewing our options, and due to the resources needed to comply with the guidelines, we may decide to abandon patent applications for some or all of our partial genes, or may not pursue all genes in every patent application.

In 2000, the U.S. Patent and Trademark Office issued new guidelines under which its examiners are to determine whether gene patent applications comply with the U.S. Patent Law's utility requirements. We believe that our gene patent applications comply with these legal requirements, but uncertainty remains regarding the application of these requirements to our gene patent applications.

We have filed patent applications for patentable SNPs identified with our LifeSeq Foundation database, through our human genome sequencing program, and through the use of our SNP discovery efforts. These patents will claim rights to SNPs for diagnostic and genotyping purposes. The scope of patent protection for genes, including SNPs, is highly uncertain, involves complex legal and factual questions and has recently been the subject of much controversy. No clear policy has emerged with respect to the breadth of claims allowable for SNPs. There is significant uncertainty as to what, if any, claims will be allowed on SNPs.

As the biotechnology industry expands, more patents are issued and other companies engage in the business of discovering genes and other genomic-related businesses, the risk increases that our potential products, and the processes used to develop these products, may be subject to claims that they infringe the patents of others. Therefore, our operations may require us to obtain licenses under any of these patents or proprietary rights, and these licenses may not be made available on terms acceptable to us. Litigation may be necessary to defend against or assert claims of infringement, to enforce patents issued to us, to protect trade secrets or know-how owned by us, or to determine the scope and validity of the proprietary rights of others. We believe that some of our patent applications cover genes that may also be claimed in patent applications filed by other parties. Interference proceedings may be necessary to establish which party was the first to invent a particular sequence for the purpose of patent protection. Several interferences involving our patent applications covering full length genes have been declared. Litigation or interference proceedings, regardless of the outcome, could result in substantial costs to us, and divert our efforts, and may have a material adverse effect on our business, operating results and financial condition. In addition, there can be no assurance that such proceedings or litigation would be resolved in our favor.

In January and September 1998, Affymetrix, Inc. filed lawsuits in the United States District Court for the District of Delaware alleging infringement by Incyte of three U.S. patents. In December 2001, Affymetrix and Incyte settled the infringement claims. In December 2002, we settled our appeal before the United States District Court for the Northern District of California seeking de novo review of the Board of Patent Appeals and Interferences' decision relating to patent applications licensed by us from Stanford University.

In October 2001, Invitrogen Corporation filed an action against us in the United States District Court for the District of Delaware, alleging infringement of three patents. The complaint seeks unspecified money damages and injunctive relief. We believe that we have meritorious defenses and intend to defend this suit vigorously. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Affect Results."

Collaborators

As of December 31, 2002, we had agreements for information products, some of which include licensing a portion of our intellectual property, with over 100 pharmaceutical, biotechnology and agricultural companies and academic institutions. Over 96%, 79% and 75% of revenues in 2002, 2001 and 2000, respectively, were derived from such agreements. In general, collaborators agree to pay, during the term of the agreement, fees to receive access to selected modules of our databases and/or licenses of certain of our intellectual property. In addition, if a collaborator develops certain products utilizing our technology and proprietary database information, we could potentially receive royalty payments.

One collaborator contributed 11% of our total revenues in 2000, but no collaborator accounted for 10% or more of total revenues in 2002 or 2001.

For the year ended December 31, 2002, we recorded revenue from collaborators throughout the United States and in Austria, Belgium, Canada, France, Denmark, Germany, India, Israel, Japan, the Netherlands, Switzerland and the United Kingdom. Export revenue for the years ended December 31, 2002, 2001 and 2000 was $34.8 million, $49.7 million and $48.2 million, respectively.

Competition

Our therapeutic discovery and development efforts compete with those of many companies in both the biotechnology and pharmaceutical sectors that are trying to develop new drugs. These competitors include many that have greater resources than we do. These competitors may also have programs addressing the same diseases as our programs but that are at more advanced stages. It is also possible that our therapeutic discovery and development efforts will require access to intellectual property or technologies that are not available to us, or are only available to us on terms that we consider unreasonable.

We believe the following are important aspects of the competitive position of our therapeutic discovery and development efforts:

- our leading intellectual property portfolio;
- the experience of our senior management in the discovery and development of drugs; and
- our relationships with pharmaceutical and biotechnology collaborators.

There is a finite number of genes and gene transcripts in the human genome, and competitors may seek to identify, sequence and determine in the shortest time possible the biological function of a large number of genes in order to obtain a proprietary position with respect to the largest number of new genes discovered. A number of companies, institutions, and government-financed entities are engaged in gene sequencing, gene discovery, gene expression analysis, positional cloning and other genomic service businesses. Many of these companies, institutions and entities have greater financial and human resources than we do. In addition, we are aware that

other companies have developed databases containing gene sequence, gene expression, genetic variation or other genomic information and are marketing, or have announced their intention to market, their data to pharmaceutical companies.

In addition, competitors may discover and establish patent positions with respect to the gene sequences and polymorphisms in our databases. These patent positions, or the public availability of gene sequences comprising substantial portions of the human genome or on microbial or plant genes, could:

- Decrease the potential value of our databases to our subscribers; and
- adversely affect our ability to realize royalties or other revenue from commercialization of products based upon such genetic information.

We believe that the following are important aspects of the competitive position of our database products:

- the features and ease-of-use;
- our experience in high-throughput gene sequencing;
- the cumulative size of our databases;
- the quality of the data, including the annotations in our databases;
- the consolidation of publicly available and proprietary information in a single product;
- our computing infrastructure; and
- our employees and their experience with bioinformatics.

The genomics and biotechnology industries are characterized by extensive research efforts and rapid technological progress. New developments are expected to continue and there can be no assurance that discoveries by others will not render our services and potential products noncompetitive. In addition, significant levels of research in biotechnology and medicine occur in universities and other non-profit research institutions. These entities have become increasingly active in seeking patent protection and licensing revenues for their research results. These entities also compete with us in recruiting talented scientists. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Affect Results—Our industry is intensely competitive, and if we do not compete effectively, our revenues may decline and our losses may increase.”

Government Regulation

Regulation by governmental authorities in the United States and other countries will be a significant factor in the production and marketing of any pharmaceutical products that may be developed by us, our collaborators or our licensees. Our agreements with our LifeSeq Foundation database subscribers provide for the payment to us of royalties on any pharmaceutical products developed by those subscribers derived from proprietary information obtained from our genomic databases. Thus, the receipt and timing of regulatory approvals for the marketing of such products may have a significant effect on our future revenues.

Any products that we or our collaborators develop will require regulatory clearances prior to commercialization. We believe that the potential products developed by us or our collaborators will be regulated either as biological products or as new drugs. New drugs and biologics are subject to rigorous preclinical and clinical testing and other approval procedures by the United States Food and Drug Administration and may be subject to similar requirements by regulatory authorities in other countries. Various statutes and regulations govern, among other things, the testing, manufacturing, distribution, safety, efficacy, labeling, storage, record keeping, advertising and other promotional practices involving biologics or new drugs. Obtaining FDA approval has historically been a costly and time-consuming process. We and our collaborators, may encounter significant

delays or excessive costs in our efforts to secure necessary approvals. If approvals are obtained, the subsequent compliance with applicable statutes and regulations can also require the expenditure of substantial resources. Any failure by us to obtain or maintain, or any delay in obtaining or maintaining, regulatory approvals could harm our business.

FDA approval or other clearances must be obtained before clinical testing, and before manufacturing and marketing, of biologics and drugs. FDA approval is required prior to marketing a pharmaceutical or biologic product in the United States. To obtain this approval the FDA requires clinical trials to demonstrate the safety, efficacy, and potency of the product candidates. Clinical trials are the means by which experimental drugs or treatments are tested in humans. New therapies typically advance from laboratory, research, testing through animal, preclinical testing and finally through several phases of human, clinical testing. Upon successful completion of clinical trials, approval to market the therapy for a particular patient population may be requested from the FDA in the United States.

Generally, in order to gain FDA pre-market approval, a developer first must conduct laboratory studies and animal-model studies to gain preliminary information on a product's efficacy and to identify any safety problems. The results of these studies are submitted as a part of an investigational new drug application, which the FDA must review before human clinical trials of a product can start. The investigational new drug application includes a detailed description of the initial animal studies and human investigation to be undertaken. Laboratory studies can take several years to complete, and there is no assurance that an investigational new drug application based on such studies will ever become effective so as to permit human testing to begin.

Human clinical trials are normally conducted in three phases, although the phases may overlap. Phase I trials are concerned primarily with the safety and preliminary activity of the product and are typically conducted with a relatively small number of subjects. Phase II trials normally involve a larger group of subjects and are designed primarily to demonstrate on a preliminary basis efficacy, optimal dosages and expanded evidence of safety. Phase III trials are expanded trials with larger numbers of patients in a number of sites that are intended to gather enough information to statistically evaluate the safety and efficacy of the product.

The FDA receives reports on the progress of each phase of testing, and it may require the modification, suspension, or termination of trials if an unwarranted risk is presented to patients. If the FDA imposes a clinical hold, trials may not recommence without FDA authorization and then only under terms authorized by the FDA. The investigational new drug application process can thus result in substantial delay and expense. Inadvertent regulatory noncompliance by an investigator, or intentional investigator misconduct, can jeopardize the usefulness of study results and, in some circumstances, require a company to repeat a study.

In some cases, reviews of potential drugs may proceed under the accelerated approval regulations, "fast track" statutory provisions, or the expedited review regulations. The accelerated approval provisions apply to products used in the treatment of serious or life-threatening illnesses that appear to provide meaningful therapeutic benefits over existing treatments. The expedited review regulations apply to products for life-threatening and severely debilitating illnesses, especially where no satisfactory alternative therapy exists. These regulations permit approval of such products at the end of Phase II, or before clinical research is completed based on the product's effect on a clinical endpoint or surrogate endpoint. The FDA retains considerable discretion to determine eligibility for expedited and accelerated review and approval mechanisms.

The results of the preclinical and clinical testing, together with detailed information on the manufacture and composition of the product, are then submitted to the FDA in the form of a Biologics License Application, or BLA, for biologics or New Drug Application, or NDA, for other drugs for approval to commence commercial sales. The testing and approval processes require substantial time and effort and there can be no assurance that the FDA will accept an NDA or BLA for filing and, even if filed, that any approval will be granted on a timely basis, if at all. Notwithstanding the submission of relevant data, the FDA may ultimately decide that an NDA or BLA does not satisfy its regulatory criteria for approval and require additional studies. In addition, the FDA may

condition marketing approval on the conduct or specific post-marketing studies to further evaluate safety and effectiveness. Among the conditions for an NDA or BLA approval is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform on an ongoing basis with current Good Manufacturing Practices, or GMP. The FDA must inspect and approve all facilities used to manufacture, fill, test and distribute biologic products. Rigorous and extensive FDA regulation of pharmaceutical products continues after approval, particularly with respect to compliance with GMP, reporting of adverse effects, advertising, promotion and marketing. Discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions.

The requirements that we must satisfy to obtain regulatory approval by governmental agencies in other countries prior to commercialization of our products in such countries can be as rigorous, costly and uncertain.

We are also subject to various federal, state and local laws and regulations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals, and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, that may be used in connection with our research. If our operations result in contamination of the environment or expose individuals to hazardous substances, we could be liable for damages and governmental fines. We believe that we are in material compliance with applicable environmental laws and that our continued compliance therewith will not have a material adverse effect on our business. We cannot predict, however, how changes in these laws and regulations may affect our future operations.

The process of obtaining these approvals and the subsequent compliance with appropriate federal and foreign statutes and regulations require the expenditure of substantial resources over a significant period of time, and there can be no assurance that any approvals will be granted on a timely basis, if at all. Any such delay in obtaining or failure to obtain such approvals could adversely affect our ability to earn milestone payments, royalties or other license-based fees. Additional governmental regulations that might arise from future legislation or administrative action cannot be predicted, and those regulations could delay or otherwise affect adversely regulatory approval of potential pharmaceutical products.

Corporate History

We were incorporated in Delaware in April 1991 under the name Incyte Pharmaceuticals, Inc. On March 15 2003, we changed our name from Incyte Genomics, Inc. to Incyte Corporation.

Human Resources

As of January 31, 2003, we had 491 employees, including 235 in research and development (including patent legal personnel), 61 in sequencing and reagent production, 33 in bioinformatics, and 162 in marketing, sales, business development, finance, operations support and administrative positions. None of our employees are covered by collective bargaining agreements, and management considers relations with our employees to be good. Our future success will depend in part on the continued service of our key scientific, bioinformatics and management personnel and our ability to identify, hire and retain qualified personnel, including personnel for our therapeutic discovery and development programs. There is intense competition for qualified personnel in the areas of our activities, especially with respect to experienced scientific personnel, and there can be no assurance that we will be able to continue to attract and retain such personnel necessary for the development of our business. Failure to attract and retain key personnel could have a material adverse effect on our business, financial condition and operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors that May Affect Results —We depend on key employees in a competitive market for skilled personnel, and the loss of the services of any of our key employees would affect our ability to achieve our objectives" and "—We are at the early stage of our therapeutic discovery and development efforts and we may be unsuccessful in our efforts."

Research and Development

Since our inception, we have made substantial investments in research and technology development. During 2002, 2001 and 2000, we incurred research and development expenditures of $152.4 million, $213.3 million and $192.6 million, respectively.

Available Information

Our website is located at *www.incyte.com*. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. We began making available our current reports on Form 8-K on our website in January 2003. Our website and the information contained therein or connected thereto is not intended to be incorporated into this Annual Report on Form 10-K.

Item 2. ***Properties***

Our corporate headquarters are in Palo Alto, California. Our therapeutic drug and discovery operations are primarily located in our offices in Newark, Delaware. We also have offices in Beverly, Massachusetts; San Diego, California; and Cambridge, England. We also had lease agreements at December 31, 2002 that include facilities that were closed as a part of the restructurings in St. Louis, Missouri; Palo Alto, California; Beverly, Massachusetts; and Cambridge, England. As of December 31, 2002, we had multiple sublease and lease agreements covering approximately 460,000 square feet that expire on various dates ranging from May 2003 to March 2011. Of the approximately 460,000 square feet leased, approximately 243,000 square feet are currently occupied and 217,000 square feet relate to buildings included in the restructurings. We believe that our current facilities are adequate to support our current and anticipated near-term operations and believe that we can obtain additional space we may need in the future on commercially reasonable terms.

Item 3. ***Legal Proceedings***

Affymetrix

In January and September 1998, Affymetrix, Inc. filed lawsuits in the United States District Court for the District of Delaware alleging infringement by Incyte of three U.S. patents. On December 21, 2001, we settled the following existing patent infringement litigation with Affymetrix, Inc.: Affymetrix, Inc. v. Synteni, Inc. and Incyte Pharmaceuticals, Inc., Case Nos. C 99-21164 JF and C 99-21165 JF (N.D. Cal.); Incyte Genomics, Inc. v. Affymetrix, Inc., Case No. C 01-20065 JF (N.D. Cal.); and the Incyte Opposition to Affymetrix's European Patent No. EP 0 619 321. The first lawsuit involved several of Affymetrix's microarray-related patents (U.S. Patent Nos. 5,445,934, 5,744,305 and 5,800,992). The second lawsuit involved our RNA amplification patents (U.S. Patent Nos. 5,716,785 and 5,891,636) and two additional microarray-related patents held by Affymetrix (U.S. Patent Nos. 5,871,928 and 6,040,193). As a part of the settlement, the companies have agreed to certain non-exclusive, royalty-bearing licenses and an internal use license under their respective intellectual property portfolios. Pursuant to the settlement, we received a net cash settlement that was recorded as revenue in 2001. On December 2, 2002, we agreed to settle our appeal before the United States District Court for the Northern District of California seeking de novo review of the Board of Patent Appeals and Interferences' decision relating to patent applications licensed by us from Stanford University (Case No. C99-21111JF).

Invitrogen

On October 17, 2001, Invitrogen Corporation filed a complaint for patent infringement against Incyte in the United States District Court for the District of Delaware. On November 21, 2001, we filed our answer to Invitrogen's complaint. In addition, we asserted seven counterclaims against Invitrogen seeking declaratory relief with respect to the patents at issue, implied license, estoppel, laches, and patent misuse. We are also seeking our fees, costs, and expenses. Invitrogen filed its answer to our counterclaims on January 9, 2002. The parties are

presently engaged in discovery. We believe we have meritorious defenses and intend to defend vigorously the suit brought by Invitrogen.

On November 21, 2001, we filed a complaint against Invitrogen as amended on December 21, 2001 and March 7, 2002, in the United States District Court for the Southern District of California alleging infringement of thirteen of our patents. Eight of the asserted patents (U.S. patent numbers 5,633,149, 5,637,462, 5,817,497, 5,840,535, 5,919,686, 5,925,542, 5,962,263, and 5,789,198) are gene patents. Three of the patents (U.S. patent numbers 5,716,785, 5,891,636, and 6,291,170) relate to RNA amplification and gene expression. Two of the patents (U.S. patent numbers 5,807,522 and 6,110,426) relate to methods of fabricating microarrays of biological samples. The complaint seeks a permanent injunction enjoining Invitrogen from further infringement of the patents at issue, damages for Invitrogen's conduct, as well as our fees, costs, and interest. We further seek triple damages based on Invitrogen's willful infringement of our patents.

Invitrogen has represented to the Court that its past sales of the eight GeneStorm cDNA clones charged with infringement of U.S. Patent Nos. 5,633,149, 5,637,462, 5,789,198, 5,817,497, 5,840,535, 5,919,686, 5,925,542 and 5,962,263 were not substantial and that it no longer sells these products. The parties are presently engaged in discovery concerning the RNA amplification and gene expression and the microarray fabrication patents.

We believe we have meritorious defenses and intend to defend vigorously the suit brought by Invitrogen. However, our defenses may be unsuccessful. At this time, we cannot reasonably estimate the possible range of any loss resulting from this suit due to uncertainty regarding the ultimate outcome. Further, there can be no assurance that any license that may be required as a result of this litigation or the outcome thereof would be made available on commercially acceptable terms, if at all. Regardless of the outcome, the Invitrogen litigation is expected to result in future costs to us, which could be substantial.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2002.

Executive Officers of the Registrant

Our executive officers are as follows:

Paul A. Friedman, M.D., age 60, joined Incyte as the Chief Executive Officer and a Director in November 2001. From 1998 until October 2001, Dr. Friedman served as President of DuPont Pharmaceuticals Research Laboratories, a wholly owned subsidiary of DuPont Pharmaceuticals Company (formerly The DuPont Merck Pharmaceutical Company), from 1994 to 1998 he served as President of Research and Development of The DuPont Merck Pharmaceutical Company, and from 1991 to 1994 he served as Senior Vice President at Merck Research Laboratories. Prior to his work at Merck and DuPont, Dr. Friedman was an Associate Professor of Medicine and Pharmacology at Harvard Medical School. Dr. Friedman is a Diplomat of the American Board of Internal Medicine, Member of the American Society of Pharmacology and Experimental Therapeutics, Member of the American Society of Clinical Investigation and a Member of the American Society of Biological Chemist. He received his A.B. in Biology from Princeton University and his M.D. from Harvard Medical School.

Robert B. Stein, Ph.D., M.D., age 52, joined Incyte in November 2001 as President and Chief Scientific Officer and as a Director. From September 1996 to November 2001, Dr. Stein was the Executive Vice President of Research and Preclinical Development of DuPont Pharmaceuticals Company (formerly The DuPont Merck Pharmaceutical Company). From May 1990 to September 1996, Dr. Stein was employed by Ligand Pharmaceuticals, Inc., serving as Senior Vice President and Chief Scientific Officer from 1993 to 1996, as Vice President, Research and Preclinical Development from 1992 to 1993 and Vice President, Research from 1990 to 1992. From 1982 to 1990, Dr. Stein held various positions with Merck, Sharp & Dohme Research Laboratories, including Senior Director and Head of the Department of Pharmacology from 1989 to 1990. Dr. Stein received his B.S. in biology and chemistry from Indiana University, his doctorate in Physiology and Pharmacology, and

his M.D. from Duke University. He also serves on the Board of Directors of Geron Corporation and diaDexus, Inc.

John M. Vuko, age 52, joined Incyte as Chief Financial Officer in December 1999 and became an Executive Vice President of Incyte in June 2000. Prior to joining Incyte, Mr. Vuko was the primary financial consultant of an affiliate of Achievement Radio Holdings, Inc. from October 1998 to December 1999. From April 1997 to September 1998, Mr. Vuko served as the Senior Vice President and Chief Financial Officer of Achievement Radio Holdings, Inc. From October 1989 to March 1997, Mr. Vuko served in various positions with Ross Stores, Inc., most recently as Senior Vice President and Chief Financial Officer. Prior to his work at Ross Stores, Mr. Vuko held the positions of Corporate Development Executive, Vice President, Treasurer, and Controller with the Cooper family of companies, including CooperVision, Inc., Cooper LaserSonics, Inc. and The Cooper Companies, Inc. Mr. Vuko received his B.A. in Business from San Francisco State University.

Lee Bendekgey, age 45, has been General Counsel of Incyte since January 1998 and served as Interim Chief Financial Officer from June 1999 until December 1999. Mr. Bendekgey became the Secretary of Incyte in June 1998 and an Executive Vice President of Incyte in June 2000. Prior to joining Incyte, Mr. Bendekgey was the Director of Strategic Relations at Silicon Graphics, Inc. from July 1997 through December 1997. He held various positions with SGI from March 1993 through June 1997, including Director of Legal Services, Products and Technology; Senior Counsel, Product Divisions; Group Counsel, Computer Systems Group; and Division Counsel, MIPS Technologies, Inc. From 1982 to 1993, Mr. Bendekgey held associate and partner positions with Graham & James, a law firm in San Francisco, where he specialized in intellectual property protection and licensing. Mr. Bendekgey received his B.A. magna cum laude in Political Science and French from Kalamazoo College and his J.D. from Stanford University.

Kenneth P. Jacobsen, Ph.D., age 51, has served as Executive Vice President, Information Sciences, of Incyte since February 2003. Mr. Jacobsen joined the company in June 2001 as Senior Vice President of Information Sciences. Prior to joining the company, Dr. Jacobsen served as a Vice President at Silicon Graphics Inc. from December 1993 through June 2001. Previously, Dr. Jacobsen held positions with Maspar Computer Corporation, Cydrome Computer Corporation, and Earl and Wright Consultants, a division of SEDCO Corporation. Dr. Jacobsen received his B.Sc. degree in Astrophysics from the California Institute of Technology, and his Ph.D. in Ocean Engineering from the University of California at Berkeley.

James P. Merryweather, Ph.D., age 52, has been an Executive Vice President of Incyte since November 2000 and currently serves as Executive Vice President, Business Development and Commercial Operations. He has led Incyte's Target Validation Research organization since December 2002 and, prior to that, led Incyte's Business Development organization from November 2000 until December 2001. He served as Senior Vice President of Client Business Management from July 1999 until November 2000 and served as Vice President of Partnership Programs from March 1999 until July 1999. Prior to joining Incyte, Dr. Merryweather was the Vice President of Program Management at Millennium Pharmaceuticals, Inc. from September 1996 until November 1998. Prior to joining Millennium Pharmaceuticals, Dr. Merryweather was Director of Project Management at Chiron Corporation. Dr. Merryweather held various positions at Chiron from November 1981, including Senior Scientist, Research Leader and Director of Regulatory Affairs. Dr. Merryweather received his Ph.D. in Biochemistry from Washington State University.

Brian W. Metcalf, Ph.D., age 57, has served as Executive Vice President and Chief Drug Discovery Scientist since February 2002. From March 2000 to February 2002, Dr. Metcalf served as Senior Vice President and Chief Scientific Officer of Kosan Biosciences Incorporated. From December 1983 to March 2000, Dr. Metcalf held a number of executive management positions with SmithKline Beecham, most recently as Senior Vice President, Discovery Chemistry and Platform Technologies. Prior to joining SmithKline Beecham, Dr. Metcalf held positions with Merrell Research Center from 1973 to 1983. Dr. Metcalf received his B.S. and Ph.D. in organic chemistry from the University of Western Australia. Dr. Metcalf is also a director of Argonaut Technologies, Inc.

Jason Rubin, age 45, has served as an Executive Vice President, Corporate Affairs, of Incyte since September 2002. Prior to joining Incyte, Mr. Rubin founded and was President of The Redstone Group, LLC, an independent communications consulting firm, from December 1999 to September 2002. From October 1998 to December 1999, he was Vice President of Corporate Communications at Centocor, Inc., which was acquired by Johnson & Johnson in October 1999. From July 1993 to October 1998, he was Vice President of Corporate Communications at Cephalon, Inc. Mr. Rubin received a B.A. in geology from Middlebury College and an M.S. in management from the Massachusetts Institute of Technology.

Paula Swain, age 45, has served as an Executive Vice President, Human Resources, of Incyte since August 2002 and joined the company as Senior Vice President of Human Resources in January 2002. From July 1998 to November 2001, Ms. Swain was Senior Vice President of Human Resources at Bristol-Myers Squibb after it acquired DuPont Pharmaceuticals Company, where she served as Senior Vice President of Human Resources. From October 1992 to July 1998, Ms. Swain held a variety of human resources positions of increasing responsibility at DuPont Pharmaceuticals. Ms. Swain received her B.A. in Psychology and industrial relations from Rockhurst College.

PART II

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

Our common stock, par value $.001 ("Common Stock"), is traded on the Nasdaq National Market ("Nasdaq") under the symbol "INCY." The following table sets forth, for the periods indicated, the range of high and low sales prices for the Common Stock on Nasdaq as reported in its consolidated transaction reporting system.

	High	Low
2001		
First Quarter	$ 30.63	$ 11.44
Second Quarter	25.07	12.61
Third Quarter	22.56	10.76
Fourth Quarter	21.22	12.68
2002		
First Quarter	20.45	10.45
Second Quarter	11.98	5.80
Third Quarter	7.47	3.80
Fourth Quarter	6.03	2.88

As of December 31, 2002, our Common Stock was held by 369 stockholders of record. We have never declared or paid dividends on our capital stock and do not anticipate paying any dividends in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding the Securities Authorized for Issuance under our Equity Compensation Plans is incorporated herein from the information under the caption "Equity Compensation Plan Information" contained in the Proxy Statement.

Item 6. ***Selected Consolidated Financial Data***

Selected Annual Consolidated Financial Data
(in thousands, except per share data)

The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related Notes included in Item 8 of this Report.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Consolidated Statement of Operations Data:					
Revenues	$ 101,612	$ 219,263	$ 194,167	$ 156,962	$ 134,811
Costs and expenses:					
Research and development	152,373	213,336	192,556	146,833	97,192
Selling, general and administrative	47,147	70,626	64,201	37,235	25,438
Loss on sale of assets	313	5,777	—	—	—
Charge for purchase of in-process research and development	—	—	—	—	10,978
Acquisition-related charges	—	—	—	—	1,171
Other expenses(1)	37,331	130,372	—	—	—
Total costs and expenses	237,164	420,111	256,757	184,068	134,779
Income (loss) from operations	(135,552)	(200,848)	(62,590)	(27,106)	32
Interest and other income/(expense), net	9,434	23,453	41,735	5,485	7,416
Interest expense	(9,802)	(10,128)	(10,529)	(316)	(150)
Gain (loss) on certain derivative financial instruments	(1,782)	553	—	—	—
Gain on repurchase of convertible subordinated notes	1,937	2,386	3,137	—	—
Losses from joint venture	—	—	(1,283)	(5,631)	(1,474)
Income (loss) before income taxes and accounting change	(135,765)	(184,584)	(29,530)	(27,568)	5,824
Provision (benefit) for income taxes	1,120	930	205	(800)	2,352
Income (loss) before accounting change	(136,885)	(185,514)	(29,735)	(26,768)	3,472
Cumulative effect of accounting change(2)	—	2,279	—	—	—
Net income (loss)	$ (136,885)	$ (183,235)	$ (29,735)	$ (26,768)	$ 3,472
Basic net income (loss) per share	$ (2.03)	$ (2.77)	$ (0.47)	$ (0.48)	$ 0.06
Number of shares used in computation of basic net income (loss) per share	67,403	66,193	63,211	56,276	53,842
Diluted net income (loss) per share	$ (2.03)	$ (2.77)	$ (0.47)	$ (0.48)	$ 0.06
Number of shares used in computation of diluted net income (loss) per share	67,403	66,193	63,211	56,276	57,798

	December 31,				
	2002	2001	2000	1999	1998
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and marketable securities available-for-sale	$ 429,018	$ 507,903	$ 582,180	$ 66,937	$ 111,233
Working capital	381,078	505,113	571,583	58,043	81,437
Total assets	552,139	705,559	886,820	221,934	230,290
Non-current portion of capital lease obligations and notes payable	—	—	—	194	796
Convertible subordinated notes	172,036	179,248	187,814	—	—
Accumulated deficit	(405,024)	(268,139)	(84,904)	(55,169)	(28,401)
Stockholders' equity	302,410	440,203	622,694	170,282	179,567

(1) 2002 charges relate to restructuring charges. 2001 charges include the following: $68.7 million—goodwill and intangibles impairment; $55.6 million—restructuring charges and $6.1 million—impairment of a long-lived asset. See Note 15 of Notes to Consolidated Financial Statements.

(2) Reflects the adoption of SFAS 133 related to the recording of warrants held in other companies at fair value at the date of adoption.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Annual Consolidated Financial Data" and the Consolidated Financial Statements and related Notes included elsewhere in this Report.

When used in this discussion, the words "expects," "believes," "anticipates," "estimates," "could," "intends," and similar expressions are intended to identify forward-looking statements. These statements, which include statements as to the impact of certain critical accounting policies on our financial results; expected expenses and expenditure levels; expected revenues and sources of revenues; expected uses of net cash; expected losses, net losses and net loss levels; expected expenditures including expenditures on intellectual property and research and development; the offset of profits from certain products by other expenditures; the adequacy of capital resources; the expected effect of our contractual obligations on our future liquidity and cash flow; our plans to reduce expenditures in 2003 and the expected spending reductions, workforce reductions and office consolidations; our strategic investments, including anticipated expenditures, losses and expenses; the application of U.S. Patent and Trademark Office utility guidelines to our gene patent applications; costs associated with prosecuting, defending and enforcing patent claims and other intellectual property rights; the size of our intellectual property portfolio and its competitive position; expectation that our information product line assets will help drive co-development and collaborative opportunities for our drug discovery efforts; our strategy with regard to protecting our intellectual property; the effect of pharmaceutical and biotechnology company consolidations, including reduced research and development spending and pricing constraints by pharmaceutical and biotechnology customers and the softening of the market for genomic information and the market for our information products; the effect of our pharmaceutical and biotechnology customers' focus on late stage research and clinical products on the pricing of, and the length of contractual commitment for, our information products; the expected growth of, and our ability to manage expansion of, our therapeutic discovery and development operations, including operations in multiple locations; our competitive advantage and position; the expected duration of increased competition; future required expertise relating to clinical trials, manufacturing, sales and marketing and for licenses to technology rights; the commercial availability of drugs resulting from our research; our ability to obtain and maintain product liability insurance; and our plan not to obtain earthquake insurance; are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those risks discussed below, as well as the extent of utilization of genomic information by the biotechnology and pharmaceutical industries; actual and future consolidations of pharmaceutical and biotechnology companies; continuing trends with respect to reduced pharmaceutical and biotechnology research spending; our ability to manage our information products on a cash flow positive basis; risks relating to the development of new products and their use by our potential collaborators; the impact of technological advances and competition; unanticipated delays in research and development efforts; the result of further research; the number of employees entitled to receive severance benefits or other costs to be recognized in connection with the expense reduction program; our ability to consolidate our facilities and to exit and close facilities upon anticipated timelines; our ability to deliver products and services to our customers effectively with reduced headcount and management and key employee diversion; our ability to obtain and retain customers; competition from other entities; early termination of a database collaboration agreement or failure to renew an agreement upon expiration; decreasing database revenues; the cost of accessing, licensing or acquiring technologies developed by other companies; significant delays or costs in obtaining regulatory approvals; failure to obtain regulatory approval; uncertainty as to the scope of coverage, enforceability or commercial protection from patents that issue on gene and other discoveries; our ability to integrate Maxia's operations and programs successfully; our ability to obtain patent protection for our discoveries and to continue to be effective in expanding our patent coverage; the impact of changing laws on our patent portfolio; developments in and expenses relating to litigation; the results of businesses in which we have purchased equity; and the matters discussed in "Factors That May Affect Results." These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

All references to "Incyte," "we," "us" or "our" mean Incyte Corporation and its subsidiaries.

Incyte, LifeSeq, BioKnowledge and ZooSeq are our registered trademarks. We also refer to trademarks of other corporations and organizations in this document.

Overview

Incyte is a drug discovery company that develops proprietary genomic information and applies its expertise in medicinal chemistry and molecular, cellular and in vivo biology to the discovery of novel small molecule and protein therapeutics. We believe we have created the largest commercial portfolio of issued United States patents covering human, full-length genes and the proteins they encode, and license this intellectual property, as well as market our genomic and proteomic information, to many of the world's leading pharmaceutical and biotechnology companies and academic research centers. We have assembled an experienced and talented drug discovery team that is identifying potential new drug therapies for cancer, inflammatory diseases and other medical conditions.

We were incorporated in Delaware in April 1991 and, until 2001, devoted substantially all of our resources to the development, marketing and sales of genomics technologies and products to the biotechnology and pharmaceutical industries and research and academic institutions to aid in better and faster prevention, diagnosis and treatment of disease. Our products and services included databases, bioreagents, custom sequencing, gene expression, single nucleotide polymorphism, or SNP, discovery, and other services. Over time, we also increased our investments in growing our intellectual property estate to protect our proprietary information as well as our internal and collaborative efforts to identify and validate drug targets.

During 2001, we increased our focus on our therapeutic discovery and development program, and we exited the following activities: microarray products and related services, genomic screening products and services, public domain clone products and related services, contract sequencing services, transgenic products and services and SNP discovery services.

Our business is now focused on our therapeutic discovery and development programs and our information products. Our current products include information databases, intellectual property licensing, and certain other products, such as full-length clones. The fees and the period of access to our database information are negotiated independently with each company. In addition to providing access to pharmaceutical and biotechnology customers, we also provide access to our database to third parties who use the database to develop genomic tools, such as microarrays that require genomic content, which they in turn sell to pharmaceutical and biotechnology researchers. Fees payable by pharmaceutical and biotechnology collaborators for our information products also generally consist of non-exclusive or exclusive fees corresponding to patent rights on proprietary genes and proteins. We may also receive future milestone and royalty payments from collaborators from the development and sale of their products derived from our technology and database information.

We expect that the overall market for our information products will continue to be competitive based on softening of the market for genomic information, shrinking research budgets of our current and potential customers and industry consolidation. Revenue trends indicate that subscribers are being more cautious with their spending to focus more of their resources on late stage research and clinical products than in the past, and this has adversely impacted the pricing of and, in some cases, the length of the contractual commitment for, our information products. We expect this trend to continue into 2003 and that revenues in 2003 will be lower than those recognized in the prior year.

We intend to manage our information products on a cash flow positive basis. Our ability to earn revenues and successfully manage our information products on a cash flow positive basis depends, in large part, on our ability to attract new customers and retain new and existing customers for our information products in an increasingly competitive market environment. Further, we have only received limited royalty revenues to date,

and do not expect to receive significant royalty or other revenues from development and commercialization by our customers using our information products for several years, if at all. Revenues from our customers may be subject to significant fluctuation in both timing and amount and, therefore, our results of operations for any period may not be comparable to the results of operations for any other period.

In conjunction with the 2002 restructuring program, we expect to reduce certain annual expenses by over $80.0 million beginning in 2003, compared with 2002, through a combination of decreased spending, job reductions and office consolidations. The restructuring programs will have little impact on our therapeutic discovery and development programs as we intend to continue to invest in research and development for our therapeutic discovery and development efforts. We expect these expenses to continue to increase in 2003 and that these increases will partially offset our expected expense reductions from the 2002 restructuring program.

We anticipate incurring additional losses for several years as we expand our therapeutic drug discovery and development programs. We also expect that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial. We do not expect to generate revenues from our therapeutic discovery and development efforts for several years, if at all. If we are unable to successfully develop and market pharmaceutical products over the next several years, our business, financial condition and results of operations would be adversely impacted.

Our investment portfolio includes equity and debt investments in publicly-traded and privately-held companies. May of these companies are still in the start-up or development stage. Our investments in these companies are inherently risky because they technologies or products they have under development are typically in the early stages and may never become successful. The market values of many of these investments can fluctuate significantly. Current market conditions may cause us to write-down the value of our investments which could result in future charges to our earnings. The determination of investment impairment involves significant management judgement, and actual amounts realized for any specific investment may differ from recorded values. Because the market value of strategic investments that we hold can fluctuate significantly, and such fluctuations are highly variable and not within our control, any future gains or losses related to strategic investments have not been included in earnings estimates for 2003.

During 2002 and 2001, we reported charges of $37.3 million and $130.4 million, respectively, relating to restructuring programs and long-lived asset write-downs announced in the fourth quarter of each year. A discussion of each of these restructuring programs follows:

During 2001, we exited certain product lines and, as a result of exiting these activities, we closed certain of our facilities in Fremont, California, Palo Alto, California, St. Louis, Missouri and Cambridge, United Kingdom. In addition to the product lines exited, we made infrastructure and other personnel reductions at our locations resulting in an aggregate workforce reduction of approximately 400 employees. A charge for the 2001 restructuring program and impairment of long-lived assets of $130.4 million was recorded in the fourth quarter of 2001 as a result of the change in focus. This charge was comprised of the following items: $68.7 million—goodwill and intangibles impairment; $55.6 million—restructuring charges (including $32.6 million in equipment and other assets impaired) and $6.1 million—impairment of a long-lived asset. Revenues from exited product lines for the years ended 2002 and 2001 were $3.6 million and $45.3 million, respectively. Additional charges for restructuring expenses of $3.4 million were recorded in 2002, primarily for contract-related settlements, impairment of long-lived assets and facilities lease expenses in excess of estimated amounts, offset by the release of other restructuring accruals in excess of actual expenses.

On November 12, 2002, we announced plans to reduce our expenditures, primarily in research and development, through a combination of spending reductions, workforce reductions and office consolidations. The expense reduction plan included elimination of approximately 37% of our workforce in Palo Alto, California, Beverly, Massachusetts, and Cambridge, England and consolidation of our office and research facilities in Palo Alto, California. As a result of these actions, we incurred a charge of $33.9 million during the fourth quarter of 2002.

In November 2002, we entered into an agreement to acquire Maxia Pharmaceuticals, Inc., a privately-held company based in San Diego, California. Maxia is a drug discovery and development company that specializes in small molecule drugs targeting diabetes and other metabolic disorders, cancer, inflammatory diseases and heart disease. On February 18, 2003, one of our wholly owned subsidiaries was merged with and into Maxia. As a result of the merger:

- Maxia became a wholly owned subsidiary of Incyte;
- Each share of Maxia common stock outstanding immediately prior to the merger was converted into the right to receive 0.05496 of a share of our common stock;
- Each share of Maxia Series A Preferred Stock outstanding immediately prior to the merger was converted into the right to receive 0.20035 of a share of our common stock; and
- Each share of Maxia Series B Preferred Stock and Maxia Series C Preferred Stock outstanding immediately prior to the merger was converted into the right to receive 0.46237 of a share of our common stock and $0.14895 in cash.

The former stockholders of Maxia received, in the aggregate, approximately 2,625,820 shares of our common stock and approximately $580,000 in cash upon the consummation of the merger. We also assumed outstanding third party indebtedness of approximately $920,000. $2.5 million in cash and 975,000 shares of our common stock was paid to certain debt holders of Maxia. The cash portion of the purchase price was provided from our existing cash balances.

In addition, upon the consummation of the merger, all outstanding shares of Maxia Series A-Additional Payments, Maxia Series B-Additional Payments, Maxia Series C-Additional Payments and Maxia Common-Additional Payments were converted, in the aggregate, into the right to receive:

- up to 437,636 shares of our common stock and $500,000 in cash on the second anniversary of the consummation of the merger; and
- up to 437,636 shares of our common stock and $500,000 in cash on the third anniversary of the consummation of the merger.

Further, all outstanding shares of Maxia Series A-Earn Out, Maxia Series B-Earn Out, Maxia Series C-Earn Out and Maxia Common-Earn Out were converted, in the aggregate, into the right to receive certain Earn Out Amounts of up to a potential aggregate amount of $14.0 million upon the occurrence of certain milestones set forth in the merger agreement. Twenty percent of each earn out payment, if earned, will be paid in cash and the remaining eighty percent will be paid in shares of our common stock such that an aggregate of $2.8 million in cash and $11.2 million in our common stock could potentially be paid pursuant to the earn out milestones. The milestones occur as Maxia products enter various stages of human clinical trials and may be earned at any time prior to the tenth anniversary of the consummation of the merger.

Prior to entering into the merger agreement, in August 2002, we loaned Maxia $1.5 million in exchange for the right to negotiate with Maxia exclusively regarding an acquisition or other strategic transaction. In exchange for the loan, Maxia issued a $1.5 million senior convertible note to us. Interest on the note would have accrued at the rate of 8% per year in the event the negotiations with Maxia had terminated. The note was convertible into shares of any class or series of Maxia capital stock at a set conversion price. This note was applied as a portion of the consideration in the transaction.

In addition, we loaned Maxia an aggregate of $1.4 million to cover their operating expenses during the period between the signing of the merger agreement and the consummation of the merger. In exchange for the loan, Maxia issued to us a second senior convertible note. Through December 31, 2002, we had funded $0.9 million under this note, which was charged to research and development expense. Although our analysis of purchase price allocation remains incomplete, we expect to record a charge in the first quarter of 2003 to the

extent our final analysis concludes that total purchase price should be allocated to in-process research and development or other expenses.

Frederick B. Craves, one of our directors, is a partner of Bay City Capital, which held shares of Maxia stock. The transaction with Maxia was negotiated at arms' length and, because Dr. Craves is a director of both companies, a special committee of the Board of Directors, which did not include Dr. Craves, was formed to consider and approve this related party transaction.

Critical Accounting Policies and Significant Estimates

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

- Revenue recognition
- Valuation of long-lived assets
- Accounting for long-term investments
- Restructuring charges

Revenue Recognition. Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable and collectibility is reasonably assured. We enter into various types of agreements for access to our information databases, use of our intellectual property and sales of our custom products and services. Revenues are deferred for fees received before earned or until no further obligations exist.

Revenues from ongoing database agreements are recognized evenly over the access period. Revenues from licenses to our intellectual property are recognized when earned under the terms of the related agreements. Royalty revenues are recognized upon the sale of products or services to third parties by the licensee or other agreed upon terms.

Revenues from custom products, such as clones and datasets, are recognized upon completion and delivery. Revenues from custom services are recognized upon completion of contract deliverables. Revenues from gene expression microarray services include: technology access fees, which are recognized ratably over the access term, and progress payments, which are recognized at the completion of key stages in the performance of the service in proportion to the costs incurred.

Revenues recognized from multiple element contracts are allocated to each element of the arrangement based on the fair values of the elements. The determination of fair value of each element is based on objective evidence from historical sales of the individual element by us to other customers. If such evidence of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value does exist or until all elements of the arrangement are delivered. In accordance with Staff Accounting Bulletin No. 101, ("SAB 101"), when elements are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligation associated with the element is completed. When revenues for an element are not specifically tied to a separate earnings process, they are recognized ratably over the term of the agreement.

When contracts include non-monetary payments, the value of the non-monetary transaction is determined using the fair value of the products and services involved, as applicable. For non-monetary payments involving the receipt of equity in a public entity, the fair value is based on the traded stock price on the date revenue is earned. For non-monetary payments involving the receipt of equity in a privately-held company, fair value is determined either based on a current or recent arm's length financing by the issuer or upon an independent valuation of the issuer.

Valuation of Long-Lived Assets. We assess the impairment of long-lived assets, which includes property and equipment as well as intangible and other assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could indicate the need for an impairment review include the following:

- Significant changes in the strategy of our overall business;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization relative to net book value.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, in accordance with SFAS 144, we perform an undiscounted cash flow analysis to determine if impairment exists. If impairment exists, we measure the impairment based on the difference between the asset's carrying amount and its fair value.

Accounting for Long-Term Investments. We monitor our investment portfolio for impairment on a periodic basis. Our investment portfolio includes equity and debt investments in publicly-traded and privately-held companies. Many of these companies are still in the start-up or development stage. Our investments in these companies are inherently risky because the technologies or products they have under developement are typically in the early stages and may never become successful. Investments in publicly-traded companies are classified as available-for-sale and are adjusted to their fair value each period based on their traded market price with any adjustments being recorded in other comprehensive income. Investments in privately-held companies are carried at cost. We record an investment impairment charge when we believe that the investment has experienced a decline in value that is other than temporary. The determination of whether an impairment is other than temporary consists of a review of qualitative and quantitative factors by members of senior management. Generally, declines that persist for six months or more are considered other than temporary. We use the best information available in these assessments, however, the information available may be limited. These determinations involve significant management judgment, and actual amounts realized for any specific investment may differ from the recorded values. Future adverse changes in market conditions or poor operating results of underlying investments could result in additional impairment charges.

Restructuring Charges. The restructuring charges resulting from the 2002 and 2001 restructuring programs have been recorded in accordance with EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ("EITF 94-3")* and Staff Accounting Bulletin No. 100, *Restructuring and Impairment Charges ("SAB 100")*. The restructuring charges are comprised primarily of costs to exit facilities, reduce our workforce, write-off fixed assets, and costs of outside services incurred in the restructuring. The workforce reduction charge was determined based on the estimated severance and fringe benefit charge for identified employees. In calculating the cost to exit the facilities, we estimated for each location the amount to be paid in lease termination payments, the future lease and operating costs to be paid until the lease is terminated, the amount, if any, of sublease receipts and real estate broker fees. This required us to estimate the timing and costs of each lease to be terminated, the amount of operating costs, and the timing and rate at which we might be able to sublease the site. To form our estimates for these costs, we performed an assessment of the affected facilities and considered the current market conditions for each site. Estimates were also used in our calculation of the estimated realizable value on equipment that is being held for sale. These estimates were formed based on recent history of sales of similar equipment and market conditions. Our assumptions on either the lease termination payments, operating costs until terminated, the offsetting sublease receipts and estimated realizable value of fixed assets held for sale may turn out to be incorrect and our actual cost may be materially different from our estimates.

Results of Operations

We recorded net losses for the years ended December 31, 2002, 2001 and 2000 of $136.9 million, $183.2 million and $29.7 million, respectively. On a basic and diluted per share basis, net loss was $2.03, $2.77 and $0.47 for the years ended December 31, 2002, 2001 and 2000, respectively.

Revenues. Revenues for the years ended December 31, 2002, 2001 and 2000 were $101.6 million, $219.3 million and $194.2 million, respectively.

Revenues are derived primarily from information products, which include licensing of our intellectual property, and custom genomics products. Information products include database subscriptions, licensing, and partner programs and represented 96%, 79% and 75% of total net revenues in 2002, 2001 and 2000, respectively. Custom genomics includes microarray-based gene expression products and services, genomic screening products and services, public domain clone products and related services, contract sequencing and SNP discovery services and represented 4%, 21% and 25% of total net revenues in 2002, 2001 and 2000, respectively. The decrease in revenues in 2002 over 2001 reflects a softening in the market for genomic information, a reduction in research spending by pharmaceutical and biotechnology companies due in part to consolidations within these industries, their efforts to reduce spending and the concomitant impact on the price of our information products, and the elimination of several lower margin product lines. Our database subscription and licensing revenues have been adversely impacted as subscribers are being more cautious with their spending than in the past. Revenues for the years ended 2002 and 2001 included $3.6 million and $45.3 million, respectively, of revenue associated with the exited custom genomics product lines that was announced in the fourth quarter of 2001. The increase in information product revenues in 2001 from 2000 is primarily due to an increase in licensing of our intellectual property.

For the years ended December 31, 2002, 2001 and 2000, revenues from companies considered to be related parties, as defined by SFAS 57 were $1.7 million, $27.0 million, and $0 million. Our related parties consist of companies in which members of our Board of Directors have invested, either directly or indirectly, or in which a member of our Board of Directors is an officer or holds a seat on the board of directors.

Revenues received from agreements in which collaborators paid with equity or debt instruments in their company were $2.4 million, $8.1 million and $6.6 million in 2002, 2001 and 2000, respectively. Additionally, revenues received from agreements in which we concurrently invested funds in the collaborator's equity securities were $0.7 million, $14.1 million and $6.4 million in 2002, 2001 and 2000, respectively.

Revenues recognized from agreements executed prior to 2002 in which a concurrent commitment was entered into to purchase goods or services from the other party for the years ended December 31, 2002, 2001 and 2000 were $4.0 million, $24.7 million and $6.7 million, respectively. No transactions in which we had a concurrent commitment to purchase goods or services were entered into during the year ended December 31, 2002. Of commitments made in prior periods, we expensed $22.0 million, $18.7 million and $1.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The above transactions were recorded at fair value in accordance with our revenue recognition policy.

Operating Expenses. Total costs and expenses for the years ended December 31, 2002, 2001 and 2000 were $237.2 million, $420.1 million and $256.8 million, respectively. In conjunction with the 2002 restructuring program, we expect to reduce certain annual expenses by over $80.0 million beginning in 2003, compared with 2002, through a combination of decreased spending, job reductions and office consolidations. The restructuring programs will have little impact on our therapeutic discovery and development programs as we intend to continue to invest in research and development for our therapeutic discovery and development efforts. We expect these expenses to continue to increase in 2003, and that such increases will partially offset our expected expense reductions from the 2002 restructuring program.

Research and development expenses. Research and development expenses for the years ended December 31, 2002, 2001 and 2000 were $152.4 million, $213.3 million and $192.6 million, respectively. The decrease in

2002 from 2001 was primarily the result of expenses eliminated in the exit of the custom genomics product lines, partially offset by increased therapeutic discovery and development expenses and certain write-offs related to impaired research and development assets. Higher research and development expenses in 2001, when compared with 2000, were primarily the result of having a full year of activity in 2001 related to the Proteome acquisition, which was completed in December 2000, and an increase in the costs related to our therapeutic discovery and development efforts. Research and development expenses may fluctuate from period to period depending upon the stage of certain projects and the level of pre-clinical and clinical trial-related activities.

Selling, general and administrative expenses. Selling, general and administrative expenses for the years ended December 31, 2002, 2001 and 2000 were $47.1 million, $70.6 million and $64.2 million, respectively. The decrease in 2002 over 2001 resulted primarily from the exit of the custom genomics product lines, infrastructure reductions and decreased legal expenses, partially offset by general and administrative expenses incurred to support our therapeutic discovery and development efforts. The increase in 2001 over 2000 resulted primarily from having a full year of activity related to the Proteome acquisition, which was completed in December 2000, and increased legal expenses related to our patent infringement cases. Our selling, general and administrative expenses include legal expenses of $4.6 million and $14.6 million in 2002 and 2001, respectively, related to our patent infringement lawsuits with Affymetrix and Invitrogen, and $8.9 million in 2000 related to our patent infringement lawsuits with Affymetrix and GeneLogic. Regardless of the outcome, the Invitrogen litigation is expected to result in future costs to us, which could be substantial.

Loss on Sale of Assets. Loss on sales of assets for the years ended December 31, 2002 and 2001 were $0.3 million and $5.8 million, respectively. The 2002 loss is due to routine disposition of assets in the normal course of business. The loss in 2001 resulted from the divestiture of the transgenics product line and the sale of certain of those assets. There were no significant sales of assets in 2000.

Other expenses. Other expenses for the years ended December 31, 2002 and 2001 were $37.3 million and $130.4 million, respectively, represent charges recorded in connection with restructuring and long-lived asset impairments. In 2002, these expenses consisted of $7.3 million in workforce reduction, $8.6 million in equipment and other asset write-offs, $18.0 million in lease commitments and other accruals related to the restructuring announced in the fourth quarter of 2002, and $3.4 million related to the increase in the 2001 restructuring charges. In 2001, these expenses, of which $109.4 million were non-cash charges, were comprised of the following items related to the restructuring in the fourth quarter of 2001: $68.7 million—goodwill and intangibles impairment and $55.6 million—nonrecurring restructuring charges and $6.1 million—impairment of long-lived asset.

Interest and Other Income/Expense, Net. Interest and other income/expense, net, for the years ended December 31, 2002, 2001 and 2000, was income of $9.4 million, $23.4 million and $41.7 million, respectively. The decrease in 2002 from 2001 was primarily due to a decrease in cash invested and lower interest rates in 2002, and long-term investment impairment charges deemed to be other than temporary, totaling $9.8 million in 2002, which were lower than 2001 impairment charges. The decrease in 2001 from 2000 was primarily due to the impact of impairment charges recorded in 2001 totaling $14.7 million on long-term investments due to declines in values deemed to be other than temporary. To a lesser degree, the decrease in the cash and marketable securities average balances for 2001 and lower interest rates also contributed to the lower interest income. The activity on discrete investments within our portfolio, in any given period, may result in gains or losses on sales or impairment charges.

Interest Expense. Interest expense for the years ended December 31, 2002, 2001 and 2000 was $9.8 million, $10.1 million and $10.5 million, respectively. The decrease in 2002 from 2001 resulted primarily from the timing impact of the early retirement of $6.7 million and $8.0 million face value of our convertible subordinated notes in 2002 and 2001, respectively. The small decrease in 2001 from 2000 is due to a lower average outstanding balance of our convertible subordinated notes as a result of the timing of issuance in 2000 and subsequent repurchases of $23.0 million face value in 2000 and 2001, causing the interest thereon to decrease.

Gain/(Loss) on Certain Derivative Financial Instruments, Net. Loss on certain derivative financial instruments for the year ended December 31, 2002 of $1.8 million and gain on certain derivative financial instruments for the year ended December 31, 2001 of $0.6 million represents the change in fair value of certain long-term investments, specifically warrants held in other companies, in accordance with SFAS 133. Gain or loss on derivative financial instruments may fluctuate in any given period based upon current market conditions and is recognized during the period of change.

Gain on Repurchase of Convertible Subordinated Notes. In 2002, 2001 and 2000, we repurchased $6.7 million, $8.0 million and $15.0 million face value of our 5.5% convertible subordinated notes on the open market, respectively. The repurchase resulted in a gain of $1.9 million, $2.4 million and $3.1 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Losses from Joint Venture. We incurred no losses from joint venture for the years ended December 31, 2002 and 2001. Loss from joint venture was $1.3 million for the year ended December 31, 2000. In September 1997, we formed a joint venture, diaDexus, LLC ("diaDexus") with SmithKline Beecham Corporation. The loss represents our share of diaDexus' losses from operations. On April 4, 2000, diaDexus converted from an LLC to a corporation and completed a private equity financing at which time we no longer had significant influence over diaDexus. Accordingly, we began accounting for our investment in diaDexus under the cost method of accounting as of the date of the financing, and therefore did not include diaDexus' results of operations in our statement of operations subsequent to that date.

Provision for Income Taxes. Due to our net loss in 2002, 2001 and 2000, we had a minimal effective annual income tax rate. The provisions for income taxes for 2002, 2001 and 2000 are primarily attributable to foreign withholding taxes.

Recent Accounting Pronouncements

In August 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146")*. SFAS 146 supersedes EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ("EITF 94-3")*. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Additionally, SFAS 146 establishes that fair value is the objective for initial measurement of the liability. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of the statement on January 1, 2003 will not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others, ("FIN 45")*. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on our results of operations or financial position.

In November 2002, the Emerging Issues Task Force ("EITF") issued a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables ("EITF Issue No. 00-21")*. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We are currently evaluating the effect that the adoption of EITF Issue No. 00-21 will have on our results of operations and financial position.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure ("SFAS 148").* SFAS 148 amends FASB Statement No. 123, *Accounting for Stock-Based Compensation ("SFAS 123")* to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 to require more prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS 148 also amends APB Opinion No. 28, *Interim Financial Reporting ("APB 28")* to require disclosure about the net income effects in interim financial information. The provisions of this statement are effective for financial statements for fiscal years ending after December 15, 2002. The disclosure provisions of this statement have been included in our 2002 notes to consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities ("FIN 46").* The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities by requiring the variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. We believe that none of our investments qualify as entities that require consolidation under FIN 46 and will adopt this Interpretation in the third quarter of fiscal year 2003.

Liquidity and Capital Resources

As of December 31, 2002, we had $429.0 million in cash, cash equivalents and marketable securities, compared to $507.9 million as of December 31, 2001. We have classified all of our marketable securities as short-term, as we may choose not to hold our marketable securities until maturity in order to take advantage of favorable market conditions. Available cash is invested in accordance with our investment policy's primary objectives of liquidity, safety of principal and diversity of investments.

Net cash used in operating activities was $58.3 million, $47.0 million and $13.9 million for the years ended December 31, 2002, 2001 and 2000, respectively. The change in net cash used in 2002 as compared to 2001 was primarily due to the increase in net loss in 2002, adjusted for non-cash items such as restructuring charges and impairment of long-lived assets, as well as the decrease in accrued and other liabilities and deferred revenue, offset by higher cash provided by the decrease in accounts receivable in 2002 as compared to 2001. The change in net cash used in 2001 as compared to 2000 was primarily due to the increase in net loss in 2001, less non-cash restructuring charges and impairment of long-lived assets, as well as increases in cash usage for accounts receivable and accounts payable.

Our investing activities, other than purchases, sales and maturities of marketable securities, have consisted predominantly of capital expenditures and net purchases of long-term investments. Capital expenditures for the years ended December 31, 2002, 2001 and 2000, were $11.9 million, $12.9 million and $59.5 million, respectively. Capital expenditures decreased in 2002 due to reduced operational needs given our exit of custom genomics product lines, partially offset by increased spending on our therapeutic discovery and development efforts. Capital expenditures decreased in 2001 from 2000 due to lower spending on computer equipment, laboratory equipment and minimal spending on leasehold improvements in 2001. Cash used for long-term investments in companies having operations or technology in areas within our strategic focus was $5.0 million, $28.0 million and $3.5 million for the years ended December 31, 2002, 2001 and 2000, respectively. In 2000 we sold a strategic equity investment, resulting in proceeds of $7.9 million and a gain of $5.4 million, and diaDexus repaid its $2.5 million note to us. In 2000, we paid $36.9 million, net of cash received, in connection with the acquisition of Proteome. In the future, net cash used by investing activities may fluctuate significantly from period to period due to the timing of strategic equity investments, acquisitions, including possible earn-out payments to former Maxia stockholders, capital expenditures and maturities/sales and purchases of marketable securities.

Net cash used by financing activities was $3.2 million for the year ended December 31, 2002 and net cash provided by financing activities was $5.8 million and $619.1 million for the years ended December 31, 2001 and 2000, respectively. Net cash used by financing activities in 2002 was primarily due to amounts paid to repurchase shares of our common stock and to repurchase convertible subordinated notes, offset by proceeds received from the issuance of common stock under our stock option and employee stock purchase plans. In October 2002, we announced that our board of directors authorized the expenditure of up to $30.0 million to repurchase shares of our common stock in open market and privately negotiated transactions. Through December 31, 2002, we had purchased, and retired, 1,135,000 shares of common stock for an aggregate purchase price of $5.7 million. Net cash provided by financing activities in 2001 was primarily due to proceeds received from the issuance of common stock under our stock option and employee stock purchase plans, offset by amounts paid to repurchase convertible subordinated notes. Net cash provided by financing activities in 2000 was primarily due to our raising of additional funds in two financing transactions. In February 2000, we issued $200.0 million aggregate principal amount of 5.5% convertible subordinated notes due 2007 in a private placement, resulting in net proceeds of $196.8 million. Also in February 2000, we issued 4,000,000 shares of our common stock in a private placement, for an aggregate purchase price of $422.0 million. Net proceeds from the sale of those shares were $403.3 million.

The following summarizes our contractual obligations at December 31, 2002 and the effect those obligations are expected to have on our liquidity and cash flow in future periods (in millions):

Contractual Obligations:	Total	Less Than 1 Year	Years 1–3	Years 4–5	Over 5 Years
Convertible subordinated debt	$ 170.3	$ —	$ —	$ 170.3	$ —
Interest on convertible subordinated debt	42.1	9.4	18.7	14.0	—
Non-cancelable operating lease obligations	75.3	15.2	19.3	15.9	24.9
Total contractual obligations	$ 287.7	$ 24.6	$ 38.0	$ 200.2	$ 24.9

We also have purchase commitments of $11.3 million at December 31, 2002, the timing of which is dependent upon provision by the vendor of products or services. Additionally, we have committed to purchase equity in certain companies when certain events occur. The total amount committed at December 31, 2002 was $5.0 million. These commitments are considered contingent commitments as a future event must occur in order to cause the commitment to be enforceable.

We expect to use net cash in 2003 as we invest in our therapeutic discovery and development programs, including continued expansion of our laboratory facilities; continue to invest in our intellectual property portfolio; make payments related to our restructuring programs; continue to seek access to technologies through investments, research and development and new alliances, license agreements and/or acquisitions; make strategic investments; and continue to make improvements in existing facilities.

We believe that our existing resources will be adequate to satisfy our capital needs for at least the next twelve months. Our cash requirements depend on numerous factors, including our ability to attract and retain collaborators for our databases and other products and services; expenditures in connection with alliances, license agreements and acquisitions of and investments in complementary technologies and businesses; expenditures in connection with our expansion of therapeutic discovery and development programs; competing technological and market developments; the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights; capital expenditures required to expand our facilities, including facilities for our expanding therapeutic discovery and development programs; and costs associated with the integration of new operations assumed through mergers and acquisitions. Changes in our research and development plans or other changes affecting our operating expenses may result in changes in the timing and amount of expenditures of our capital resources.

In February 2003, we completed our acquisition of Maxia. The former stockholders of Maxia received, in the aggregate, approximately 2,625,820 shares of our common stock and approximately $580,000 in cash upon

the consummation of the merger. We also assumed outstanding third party indebtedness of approximately $920,000. $2.5 million in cash and 975,000 shares of our common stock was paid to certain debt holders of Maxia. The cash portion of the purchase price was provided from our existing cash balances.

In addition, upon the consummation of the merger, all outstanding shares of Maxia Series A-Additional Payments, Maxia Series B-Additional Payments, Maxia Series C-Additional Payments and Maxia Common-Additional Payments were converted, in the aggregate, into the right to receive:

- up to 437,636 shares of our common stock and $500,000 in cash on the second anniversary of the consummation of the merger; and
- up to 437,636 shares of our common stock and $500,000 in cash on the third anniversary of the consummation of the merger.

Further, all outstanding shares of Maxia Series A-Earn Out, Maxia Series B-Earn Out, Maxia Series C-Earn Out and Maxia Common-Earn Out were converted, in the aggregate, into the right to receive certain Earn Out Amounts of up to a potential aggregate amount of $14.0 million upon the occurrence of certain milestones set forth in the merger agreement. Twenty percent of each earn out payment, if earned, will be paid in cash and the remaining eighty percent will be paid in shares of our common stock such that an aggregate of $2.8 million in cash and $11.2 million in our common stock could potentially be paid pursuant to the earn out milestones. The milestones occur as Maxia products enter various stages of human clinical trials and may be earned at any time prior to the tenth anniversary of the consummation of the merger.

Prior to entering into the merger agreement, in August 2002, we loaned Maxia $1.5 million in exchange for the right to negotiate with Maxia exclusively regarding an acquisition or other strategic transaction. In exchange for the loan, Maxia issued a $1.5 million senior convertible note to us. Interest on the note would have accrued at the rate of 8% per year in the event the negotiations with Maxia had terminated. The note was convertible into shares of any class or series of Maxia capital stock at a set conversion price. This note was applied as a portion of the consideration in the transaction.

In addition, we loaned Maxia an aggregate of $1.4 million to cover their operating expenses during the period between the signing of the merger agreement and the consummation of the merger. In exchange for the loan, Maxia issued to us a second senior convertible note. Through December 31, 2002, we had funded $0.9 million under this note, which was charged to research and development expense.

FACTORS THAT MAY AFFECT RESULTS

RISKS RELATING TO OUR FINANCIAL RESULTS

We have had only limited periods of profitability, we expect to incur losses in the future and we may not return to profitability.

We had net losses from inception in 1991 through 1996 and in 1999 through 2002. Because of those losses, we had an accumulated deficit of $405.0 million as of December 31, 2002. We intend to continue to spend significant amounts on new product and technology development, including the expansion of our research and development efforts for therapeutic discovery and development, the determination of the sequence of genes and the filing of patent applications regarding those gene sequences, the determination of gene functions, and our research and development alliances. As a result, we expect to incur losses in 2003. We expect to report net losses in future periods as well.

We expect that any cash flows from our information products, including our database products and our intellectual property licensing, will be more than offset by expenditures for our therapeutic discovery and development efforts. We anticipate that these efforts will increase as we focus on the studies that are required before we can sell, or license to a third party, a drug product. The development of therapeutic products will require significant expenses for research, development, testing and regulatory approvals. Unless we generate significant revenues to pay these costs, we will not return to profitability. We cannot be certain whether or when we will again become profitable because of the significant uncertainties relating to our ability to generate commercially successful drug products that will generate significant revenues.

Our operating results are difficult to predict, which may cause our stock price to decline and result in losses to investors.

Our operating results are difficult to predict and may fluctuate significantly from period to period, which may cause our stock price to decline and result in losses to investors. Some of the factors that could cause our operating results to fluctuate include:

- changes in the demand for our products;
- the timing of intellectual property licenses that we may grant;
- the introduction of competitive databases or services, including databases of publicly available, or public domain, genetic information;
- the nature, pricing and timing of products and services provided to our collaborators;
- our ability to compete effectively in our therapeutic discovery and development efforts against competitors that have greater financial or other resources or drug candidates that are in further stages of development;
- acquisition, licensing and other costs related to the expansion of our operations, including operating losses of acquired businesses;
- losses and expenses related to our investments;
- our ability to attract and retain key personnel;
- regulatory developments or changes in public perceptions relating to the use of genetic information and the diagnosis and treatment of disease based on genetic information;
- regulatory actions and changes related to the development of drugs;
- changes in intellectual property laws that affect our rights in genetic information that we license;

- payments of milestones, license fees or research payments under the terms of our external alliances and collaborations and our ability to monitor and enforce such payments; and
- expenses related to, and the results of, litigation and other proceedings relating to intellectual property rights, including the lawsuits filed by Invitrogen and counterclaims filed by us.

We anticipate significant fixed expenses, due in part to our expansion of our therapeutic discovery and development programs, and our continuing investment in product development and extensive support for our database collaborators. We may be unable to adjust our expenditures if revenues in a particular period fail to meet our expectations, which would harm our operating results for that period. Forecasting operating and integration expenses for acquired businesses may be particularly difficult, especially where the acquired business focuses on technologies that do not have an established market. We believe that period-to-period comparisons of our financial results will not necessarily be meaningful. You should not rely on these comparisons as an indication of our future performance. If our operating results in any future period fall below the expectations of securities analysts and investors, our stock price will likely fall, possibly by a significant amount. In addition, if market or other economic conditions impact the stock market generally, or impact other companies in our industry, our stock price may also decline, possibly significantly.

If our strategic investments incur losses or charges, our earnings may decline or our losses may increase.

We make strategic investments in entities that complement our business. These investments may:

- often be made in securities lacking a public trading market or subject to trading restrictions, either of which increases our risk and reduces the liquidity of our investment;
- require us to record losses and expenses related to our ownership interest;
- require us to record charges related to the impairment in the value of the securities underlying our investment;
- require us to record acquisition-related charges, such as in-process research and development;
- require us to record charges related to post-acquisition impairment in the value of the acquired assets, such as goodwill or intangibles; and
- require us to invest greater amounts than anticipated or to devote substantial management time to the management of research and development or other relationships.

The market values of many of these investments can fluctuate significantly. We evaluate our long-term equity investments for impairment of their values on a quarterly basis. The volatility of the equity markets and the uncertainty of the biotechnology industry may result in fluctuations in the value of our investments in public companies. The value of our investments in private companies can also fluctuate significantly. Current market conditions may cause us to write-down the value of our private company investments. Many private companies are encountering difficulties in raising capital in the current market, and even if they are successful, subsequent rounds of financing are often at lower valuations than previous rounds. Impairment could result in future charges to our earnings. Our strategic investments may cause our earnings to decline or our losses to increase.

Our debt investments are impacted by the financial viability of the underlying companies.

We have a diversified portfolio of investments. The ability for our debt investments to be repaid upon maturity or to have a viable resale market is dependent, in part, on the financial success of the underlying company. Should the underlying company suffer significant financial difficulty, the debt instrument could either be downgraded or, in the worst case, our investment could be worthless. This would result in our losing the cash value of the investment and incurring a charge to our statement of operations.

Because our sales cycle is lengthy, we may spend a lot of time and money trying to obtain new or renewed subscriptions to our products but may be unsuccessful, which could hurt our profitability.

Our ability to obtain new customers for information products, to enter into license agreements for our intellectual property or to obtain renewals or additions to existing database product subscriptions, depends upon prospective subscribers' perceptions that our products and services can help accelerate their drug discovery efforts. Our database and licensing sales cycle is typically lengthy because we need to educate our potential subscribers and sell the benefits of our products to a variety of constituencies within potential subscriber companies. In addition, each agreement involves the negotiation of unique terms, and we may expend substantial funds and management effort with no assurance that a new, renewed or expanded agreement will result. These expenditures, without increased revenues, will negatively impact our profitability. Consolidations of pharmaceutical companies involved in drug discovery and development as well as expenditure reductions and an increased focus by our current or potential subscribers on later stage development programs and clinical compounds have affected the timing, progress and relative success of our sales efforts. We expect that any future consolidations and reductions in research budgets will have similar effects. In addition, current or prospective subscribers may perceive us to be in competition with them given our therapeutic discovery and development efforts, which may adversely impact new sales or renewals.

We have a large amount of debt and our debt service obligations may prevent us from taking actions that we would otherwise consider to be in our best interests.

As of December 31, 2002, we had:

- total consolidated debt of $172.0 million,
- stockholders' equity of $302.4 million, and
- a deficiency of earnings available to cover fixed charges of $135.8 million for the year ended December 31, 2002.

A variety of uncertainties and contingencies will affect our future performance, many of which are beyond our control. We may not generate sufficient cash flow in the future to enable us to meet our anticipated fixed charges, including our debt service requirements with respect to our convertible subordinated notes due 2007 that we sold in February 2000. At December 31, 2002, $170.3 million face value of those notes were outstanding. The following table shows, as of December 31, 2002, the aggregate amount of our interest payments due in each of the next five calendar years listed:

Year	Aggregate Interest
2003	$9,366,500
2004	9,366,500
2005	9,366,500
2006	9,366,500
2007	4,683,250

Our substantial leverage could have significant negative consequences for our future operations, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our expected cash flow to service our indebtedness, thereby reducing the amount of our expected cash flow available for other purposes, including working capital and capital expenditures;

- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; or
- placing us at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources.

The capital markets may not permit us to raise additional capital at the time that we require it.

We believe that we have sufficient capital to satisfy our capital needs for at least the next twelve months. However, our future funding requirements will depend on many factors and we anticipate that, at some future point, we will need to raise additional capital to fund our business plan and research and development efforts on a going-forward basis. If we require additional capital at a time when investment in biotechnology companies such as ours, or in the marketplace generally, is limited due to the then prevailing market or other conditions, we may not be able to raise such funds at the time that we desire or any time thereafter.

Additional factors which may affect our future funding requirements include:

- any changes in the breadth of our research and development programs;
- the results of research and development, preclinical studies and clinical trials conducted by us or our future collaborative partners or licensees, if any;
- the acquisition or licensing of businesses, technologies or compounds, if any;
- our ability to maintain and establish new corporate relationships and research collaborations;
- competing technological and market developments;
- the amount of revenues generated from our business activities;
- the time and costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims;
- the receipt of contingent licensing or milestone fees from our current or future collaborative and license arrangements, if established; and
- the timing of regulatory approvals.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our workforce reduction announced in November 2002 may have an adverse impact on our ability to deliver our information products on time, and we may fail to meet the expectations of our customers, which could in turn negatively impact our operating results.

In November 2002, we announced a reduction of approximately 37% of our workforce, including significant personnel reductions in our information product operations, in order to reduce expenses. Many factors, such as the reallocation of responsibilities among remaining personnel, the planned consolidation of our facilities and employee morale issues, may adversely impact our ability to deliver our products in accordance with our current plans or customer expectations, cause delays in the delivery of our products, or lead us to change our information product plans, which in turn may have a negative impact on our revenues and customer relationships. In addition, the implementation of the expense reduction program may itself result in customer concerns regarding our future performance and our ability to meet their expectations for our products, the diversion of efforts of our executive management team and other key employees, and higher than anticipated costs, any of which may negatively impact our operating results. Further, our management has announced that if our information products activities are not cash flow positive in 2003, further expense reductions may be necessary which, in turn, may also have a negative impact on our operating results.

Difficulties we may encounter managing the growth of our therapeutic discovery and development efforts may divert resources and limit our ability to successfully expand our business.

Our anticipated growth in the future of our therapeutic discovery and development programs, and our establishment of those operations places a strain on our infrastructure. As those operations expand, we expect that we will need to manage multiple locations and additional relationships with various collaborative partners, suppliers and other third parties. To manage our growth effectively, we must continue to improve our operational controls, reporting systems and procedures. We may not be able to successfully implement improvements to our systems and procedures in an efficient or timely manner. In addition, we are currently exploring permanent locations on the East Coast of the United States for our therapeutic discovery and development operations. If we are unable to locate facilities on a timely basis, if at all, the growth of our therapeutic discovery and development operations may be adversely impacted.

Our industry is intensely competitive, and if we do not compete effectively, our revenues may decline and our losses may increase.

We compete in markets that are new, intensely competitive, rapidly changing, and fragmented. Many of our current and potential competitors have greater financial, human and other resources than we do. If we cannot respond quickly to changing customer requirements, secure intellectual property positions, or adapt quickly and obtain access to new and emerging technologies, our revenues may decline and commercial opportunities for any of our drug products may be reduced or eliminated. Our competitors include:

- Applera Corporation,
- Gene Logic Inc.,
- pharmaceutical and biotechnology companies, and
- universities and other research institutions.

The human genome contains a finite number of genes. Our competitors may seek to identify, sequence and determine the biological function of numerous genes in order to obtain a proprietary position with respect to new genes.

In addition, we face competition from companies who are developing and may seek to develop new technologies for discovering the functions of genes, gene expression information, including microarray technologies, discovery of variations among genes and related technologies. Also, if we are unable to obtain the technology we currently use or new advanced technology on acceptable terms, but other companies are, we will be unable to compete.

We also face competition from providers of software. A number of companies have announced their intent to develop and market software to assist pharmaceutical companies and academic researchers in managing and analyzing their own genomic data and publicly available data. If pharmaceutical companies and researchers are able to manage their own genomic data, or find software solutions for managing genomic data that they find preferable to those provided by us and our collaborators, they may not subscribe to our databases.

Extensive research efforts resulting in rapid technological progress characterize the genomics industry. To remain competitive, we must continue to expand our databases, improve our software, and invest in new technologies. New developments will probably continue, and discoveries by others, or the availability of such new discoveries in the public domain, may render our services and potential products noncompetitive.

We face significant competition for our therapeutic discovery and development efforts, and if we do not compete effectively, our commercial opportunity will be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Our therapeutic discovery and development efforts may target diseases and

conditions that are already subject to existing therapies or that are subject to the drug discovery efforts of other entities. These competitors may develop products more rapidly or successfully than we or our collaborators are able to do. Our competitors might develop drugs that are more effective or less costly than any that are being developed by us or that would render our products obsolete and noncompetitive. In addition, our competitors may succeed in obtaining regulatory approvals for drug candidates more rapidly. Also, our competitors may obtain patent protection or other intellectual property rights that would limit our rights. Any drugs resulting from our research and development efforts, or from our joint efforts with any future collaborators, might not be able to compete successfully with competitors' existing and future products or obtain regulatory approval in the United States or elsewhere.

We depend on key employees in a competitive market for skilled personnel, and the loss of the services of any of our key employees would affect our ability to achieve our objectives.

We are highly dependent on the principal members of our management, operations and scientific staff. Our product development, operations and marketing efforts could be delayed or curtailed if we lose the services of any of these people.

Our future success also will depend in part on the continued service of our executive management team, key scientific, bioinformatics and management personnel and our ability to identify, hire, train and retain additional personnel for our therapeutic drug discovery and development programs. We experience intense competition for qualified personnel. If we are unable to continue to attract, train and retain these personnel, we may be unable to expand our business.

We rely on a small number of suppliers of certain products we need for our business and strategic collaborations with software providers for our information products, and if we are unable to obtain sufficient supplies, or maintain such strategic relationships, we will be unable to compete effectively.

Currently, we use gene sequencing machines supplied by Molecular Dynamics, a subsidiary of Amersham Pharmacia Biotech, Ltd., and chemicals used in the sequencing process, called reagents, supplied by Roche Bioscience and Amersham Pharmacia Biotech, Ltd. in our gene sequencing operations. If we are not able to obtain an adequate supply of reagents or other materials at commercially reasonable rates, our ability to identify genes or genetic variations would be slower and more expensive.

In addition, we rely primarily on a strategic collaboration with one software provider to provide important functionality for our products. If this collaborator suffers business difficulties, or provides functionality that does not satisfy our customers' needs, or that our customers can find less expensively elsewhere, we may spend time and money to replace the functionality, we may not be able to deliver on customer commitments, and we may be otherwise adversely affected or our customer relationships and revenues may suffer.

If the information we obtain from third-party data sources is corrupt or violates the law, our revenues and operating results could decline.

We rely on and include in our databases scientific and other data supplied by others, including publicly available information from sources such as the Human Genome Project. This data could contain errors or other defects, which could corrupt our databases. In addition, we cannot guarantee that our data sources acquired this information in compliance with legal requirements. If this data caused database corruption or violated legal requirements, we would be unable to sell subscriptions to our databases. These lost sales would harm our revenue and operating results.

Security risks in electronic commerce, unfavorable Internet regulations, or business difficulties suffered by our collaborators may deter future use of our products, which could result in a loss of revenues.

We offer several products through our website on the Internet and may offer additional products in the future. Our ability to provide secure transmissions of confidential information over the Internet may limit online

use of our products and services by our database collaborators as we may be limited by our inability to provide secure transmissions of confidential information over the Internet. Advances in computer capabilities and new discoveries in the field of cryptography may compromise the security measures we use to protect our website, access to our databases, and transmissions to and from our website. If our security measures are breached, our proprietary information or confidential information about our collaborators could be misappropriated. Also, a security breach could result in interruptions in our operations. The security measures we adopt may not be sufficient to prevent breaches, and we may be required to incur significant costs to protect against security breaches or to alleviate problems caused by breaches. Further, if the security of our website, or the website of another company, is breached, our collaborators may no longer use the Internet when the transmission of confidential information is involved. For example, recent attacks by computer hackers on major e-commerce websites and other Internet service providers have heightened concerns regarding the security and reliability of the Internet.

Because of the growth in electronic commerce, the United States Congress has held hearings on whether to further regulate providers of services and transactions in the electronic commerce market. The federal government could enact laws, rules and regulations that would affect our business and operations. Individual states could also enact laws regulating the use of the Internet. If enacted, these federal and state laws, rules and regulations could require us to change our online business and operations, which could limit our growth and our development of our online products.

Because our revenues are derived primarily from the pharmaceutical and biotechnology industries, our revenues may fluctuate substantially due to reductions and delays in research and development expenditures.

We expect that our revenues in the foreseeable future will be derived primarily from products and services provided to the pharmaceutical and biotechnology industries as well as to the academic community. Accordingly, our success will depend in large part upon the success of the companies within these industries and their demand for our products and services. Our operating results may fluctuate substantially due to reductions and delays in research and development expenditures by companies in these industries or by the academic community. These reductions and delays may result from factors such as:

- changes in economic conditions;
- consolidation in the pharmaceutical and biotechnology industries;
- changes in the regulatory environment, including governmental pricing controls, affecting health care and health care providers;
- pricing pressures;
- market-driven pressures on companies to consolidate and reduce costs; and
- other factors affecting research and development spending.

These factors are not within our control.

We are at the early stage of our therapeutic discovery and development efforts and we may be unsuccessful in our efforts.

We are in the early stage of building our therapeutic discovery and development operations. Our ability to develop and commercialize pharmaceutical products based on proteins, antibodies and other compounds will depend on our ability to:

- hire and retain key scientific employees;
- identify high quality therapeutic targets;

- identify potential therapeutic candidates;
- develop products internally;
- complete laboratory testing and human studies;
- obtain and maintain necessary intellectual property rights to our products;
- obtain and maintain necessary regulatory approvals related to the efficiency and safety of our products;
- enter into arrangements with third parties to provide services or manufacture our products on our behalf or develop efficient production facilities meeting all regulatory requirements;
- deploy sales and marketing resources effectively or enter into arrangements with third parties to provide these functions;
- lease facilities at reasonable rates to support our growth; and
- enter into arrangements with third parties to license and commercialize our products.

We have limited corporate experience with these activities and may not be successful in developing or commercializing drug products. If we choose to outsource some of these activities, we may be unable to enter into outsourcing or licensing agreements on commercially reasonable terms, or at all. In addition, if we, in the future, elect to manufacture our products in our own manufacturing facilities, those facilities will require substantial additional capital resources, and we will need to attract and retain qualified personnel to build or lease or operate any such facilities.

The success of our therapeutic discovery and development efforts may depend on our ability to find collaborators or other service providers to leverage our capabilities, and if we are unable to establish future collaborations or if these future collaborations are unsuccessful, our research and development efforts could be negatively affected.

Our strategy may depend in part upon the formation and sustainability of multiple collaborative arrangements and license agreements with third parties in the future. We may rely on these arrangements for not only financial resources, but also for expertise or economies of scale that we expect to need in the future relating to clinical trials, manufacturing, sales and marketing, and for licenses to technology rights. In order for any future collaboration efforts to be successful, we must first identify potential collaborators whose capabilities complement and integrate well with ours. Our collaborators may prove difficult to work with or less skilled than we originally expected.

It is likely that we will not be able to control the amount and timing of resources that our future corporate collaborators devote to our programs or potential products. We do not know whether our future collaborators, if any, might pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including our competitors, as a means for developing treatments for the diseases targeted by collaborative arrangements with us. Conflicts also might arise with future collaborative partners concerning proprietary rights to particular compounds.

We might not be able to commercialize our therapeutic product candidates successfully, and we may spend significant time and money attempting to do so.

At the present time, we have only begun to identify potential therapeutic compounds and have yet to put them into clinical testing. Of the compounds we identify as potential therapeutic candidates, at most, only a few are statistically likely to lead to successful therapeutic development efforts. We expect drugs that result from our research will not be commercially available for a number of years, if at all. Commercialization of any product candidates that we identify and develop depends on successful completion of preclinical studies and clinical trials. Preclinical testing and clinical development are long, expensive and uncertain processes, and we do not know

whether we, or any of our future collaborators, will be permitted to undertake clinical trials of any potential products. It may take us or any of our future collaborators several years to complete any such testing, and failure can occur at any stage of testing. Interim results of trial do not necessarily predict final results, and acceptable results in early trials may not be repeated in later trials. Data obtained from tests are susceptible to varying interpretation, which may delay, limit or prevent regulatory approval. Regulatory authorities may refuse or delay approval as a result of many other factors, including changes in regulatory policy during the period of product development. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials. Moreover, if and when our products reach clinical trials, we, or our future collaborators, may decide to discontinue development of any or all of these products at any time for commercial, scientific or other reasons. There is also a risk that competitors and third parties may develop similar or superior products or have proprietary rights that preclude us from ultimately marketing our products, as well as the potential risk that our products may not be accepted by the marketplace.

Completion of clinical trials may take many years. The length of time required varies substantially according to the type, complexity, novelty and intended use of the product candidate. Our rate of commencement and completion of clinical trials may be delayed by many factors, including:

- our inability to manufacture sufficient quantities of materials for use in clinical trials;
- variability in the number and types of patients available for each study;
- difficulty in maintaining contact with patients after treatment, resulting in incomplete data;
- unforeseen safety issues or side effects;
- poor or unanticipated effectiveness of products during the clinical trials; or
- government or regulatory delays.

An important element of our business strategy is entering into collaborative arrangements with third parties under which we license our therapeutic product candidates to those third parties for development and commercialization. We face significant competition in seeking appropriate collaborators. Also, these arrangements are complex to negotiate and time-consuming to document. We may not be successful in our attempts to establish these arrangements. The terms of any such arrangements that we establish may not be favorable to us. Further, any such arrangements may be unsuccessful.

We may encounter difficulties in integrating companies we acquire, and our operations and financial results could be harmed.

As part of our business strategy we acquire assets, technologies, compounds and businesses. Our past acquisitions, including our recent acquisition of Maxia Pharmaceuticals, Inc., have involved, and our future acquisitions may involve risks such as the following:

- we may be exposed to unknown liabilities of acquired companies;
- our acquisition and integration costs may be higher than we anticipated and may cause our quarterly and annual operating results to fluctuate;
- we may experience difficulty and expense in assimilating the operations and personnel of the acquired businesses, disrupting our business and diverting management’s time and attention;
- we may be unable to integrate or complete the development and application of acquired technology, or compounds;
- we may experience difficulties in establishing and maintaining uniform standards, controls, procedures and policies;
- our relationships with key customers of acquired businesses may be impaired, due to changes in management and ownership of the acquired businesses;

- we may be unable to retain key employees of the acquired businesses;
- we may incur amortization or impairment expenses if an acquisition results in significant goodwill or other intangible assets; or
- our stockholders may be diluted if we pay for the acquisition with equity securities.

In addition, if we acquire additional businesses that are not located near existing sites, we may experience more difficulty integrating and managing the acquired businesses' operations.

If product liability lawsuits are successfully brought against us, we could face substantial liabilities and may be required to limit commercialization of our products.

The testing and marketing of medical products entails an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. Although we intend to obtain product liability insurance, this insurance may be prohibitively expensive, or may not fully cover our potential liabilities. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with our future collaborators. We, or our future collaborators, might not be able to obtain insurance at a reasonable cost, if at all.

If a natural disaster occurs, we may have to cease or limit our business operations.

We conduct our database and a significant portion of our other activities at our facilities in Palo Alto, California and San Diego, California, which are in seismically active areas. Although we maintain business interruption insurance, we do not have and do not plan to obtain earthquake insurance. A major catastrophe, such as an earthquake or other natural disaster, could result in a prolonged interruption of our business.

RISKS RELATING TO CUSTOMERS AND COLLABORATORS

To generate significant revenues, we must obtain additional database customers and retain existing customers.

If we are unable to enter into additional agreements, or if our current database customers choose not to renew their agreements upon expiration or choose to renew their agreements at lower prices or for shorter durations, we may not generate additional revenues or maintain our current revenues. Our database revenues are also affected by the extent to which existing customers expand their agreements include our new database products and the extent to which existing customers reduce the number of products for which they subscribe, the impact of which will vary based upon our pricing of those products, as well as the pricing of new information product offerings. If the market for genomic information continues to soften, we may be required to lower prices further or restructure our product offerings to continue to meet customer demands which, in turn, may adversely impact our revenues. Some of our database agreements require us to meet performance obligations, some or all of which we may not be successful in attaining. A database customer can terminate its agreement before the end of its scheduled term if we breach the agreement and fail to cure the breach within a specified period. In addition, it is likely that database revenues will decrease if we are successful in entering into co-development arrangements with some of our current database subscribers to develop new therapeutic products.

Licensing our gene-related intellectual property may not contribute to revenues for several years, and may never result in revenues.

Part of our strategy is to license to database customers and to some of our other customers our know-how and patent rights associated with the genetic information in our proprietary databases, for use in the discovery and development of potential pharmaceutical, diagnostic or other products. Any potential product that is the subject of such a license will require several years of further development, clinical testing and regulatory

approval before commercialization. Therefore, milestone or royalty payments from these collaborations may not contribute to revenues for several years, if at all.

If conflicts arise between our future collaborators or advisors and us, they may act in their self-interest, which may be adverse to our interests or to the interests of our stockholders.

If conflicts arise between us and our future corporate collaborators or future scientific advisors, the other party may act in its self-interest and not in the interest of our stockholders. It is likely that many of our future collaborators will be conducting multiple product development efforts within each disease area that is the subject of the collaboration with us. Our future corporate collaborators may develop, either alone or with others, products in related fields that are competitive with the products or potential products that are the subject of these collaborations. Competing products, either developed by our future collaborators or to which our future collaborators have rights, may result in their withdrawal of support for our product candidates.

If we fail to enter into future collaborative arrangements or if these arrangements are unsuccessful, our business and operations would be negatively impacted.

We do not know if we will be able to establish collaborative arrangements, or whether any such future collaborative arrangements will ultimately be successful. For example, there have been, and may continue to be, a significant number of recent business combinations among large pharmaceutical companies that have resulted, and may continue to result, in a reduced number of potential future corporate collaborators. This consolidation may limit our ability to find partners who will work with us in developing and commercializing drugs. If business combinations involving our existing corporate collaborators were to occur, the effect could be to diminish, terminate or cause delays in one or more of our corporate collaborations or agreements. If we are unable to enter into collaborative arrangements or if those arrangements are unsuccessful, our research and development efforts could be negatively impacted and we may need to seek additional capital resources during times when those resources may not be available or are available on less favorable terms.

RISKS RELATING TO INTELLECTUAL PROPERTY

Our database revenues could decline due to sequences becoming publicly available.

Our competitors may discover and establish patent positions with respect to the genes in our databases. Our competitors and other entities who engage in gene discovery may make the results of their sequencing efforts publicly available. Currently, academic institutions and other laboratories participating in the Human Genome Project make their gene sequence information available through a number of publicly available databases, including the GenBank database. The public availability of these discoveries or resulting patent positions covering substantial portions of the human genome could reduce the potential value of our databases to our collaborators. Public availability of sequences could also impair our ability to realize royalties or other revenue from any commercialized products based on genetic information made public prior to our patent filings.

We are involved in patent litigation, which if not resolved favorably, could require us to pay damages.

We are currently involved in patent litigation.

In October 2001, Invitrogen Corporation filed an action against us in federal court, alleging infringement of three patents that relate to the use of reverse transcriptase with no RNase H activity in preparing complimentary DNA from RNA. The complaint seeks unspecified money damages and injunctive relief. In November 2001, we filed our answers to Invitrogen’s patent infringement claims, and asserted seven counterclaims against Invitrogen seeking declaratory relief with respect to the patents at issue, implied license, estoppel, laches, and patent misuse. We are also seeking our fees, costs and expenses.

In November 2001, we filed a complaint against Invitrogen in federal court alleging infringement of 13 of our patents relating to genes, RNA amplification and gene expression, and methods of fabricating microarrays of biological samples. The complaint seeks a permanent injunction enjoining Invitrogen from further infringement of the patents at issue, damages for Invitrogen's conduct, as well as our fees, costs, and interest. We are further seeking triple damages from the infringement claim based on Invitrogen's willful infringement of our patents. In April 2002, Invitrogen filed answers to our patent infringement claims.

We believe we have meritorious defenses and intend to defend the suit brought by Invitrogen vigorously. However, our defenses may be unsuccessful. At this time, we cannot reasonably estimate the possible range of any loss or damages resulting from these suits and counterclaims due to uncertainty regarding the ultimate outcome. In addition, regardless of the outcome, we expect that the Invitrogen litigation will result in future costs to us, which could be substantial. Further, there can be no assurance that any license that may be required as a result of this litigation will be available on commercially acceptable terms, if at all.

If we are subject to additional litigation and infringement claims, they could be costly and disrupt our business.

The technology that we use to develop our products, and the technology that we incorporate in our products, may be subject to claims that they infringe the patents or proprietary rights of others. The risk of this occurring will tend to increase as the genomics, biotechnology and software industries expand, more patents are issued and other companies attempt to discover genes and SNPs and engage in other genomic-related businesses. The success of our therapeutic discovery and development efforts will also depend, in part, on our ability to operate without infringing or misappropriating the proprietary rights of others.

As is typical in the genomics, biotechnology and software industries, we have received, and we will probably receive in the future, notices from third parties alleging patent infringement. Except for Invitrogen, no third party has a current filed patent lawsuit against us.

We may, however, be involved in future lawsuits alleging patent infringement or other intellectual property rights violations. In addition, litigation may be necessary to:

- assert claims of infringement;
- enforce our patents;
- protect our trade secrets or know-how; or
- determine the enforceability, scope and validity of the proprietary rights of others.

We may be unsuccessful in defending or pursuing these lawsuits. Regardless of the outcome, litigation can be very costly and can divert management's efforts. An adverse determination may subject us to significant liabilities or require us or our future collaborators to seek licenses to other parties' patents or proprietary rights. We or our future collaborators may also be restricted or prevented from manufacturing or selling our products and services. Further, we, or our future collaborators may not be able to obtain any necessary licenses on acceptable terms, if at all.

We may be unable to protect our proprietary information, which may result in its unauthorized use and a loss of revenue.

Our business and competitive position depend upon our ability to protect our proprietary database information and software technology. Despite our efforts to protect this information and technology, unauthorized parties may attempt to obtain and use information that we regard as proprietary. Although our database subscription agreements require our subscribers to control access to our databases, policing unauthorized use of our databases and software may be difficult, both domestically and internationally.

We pursue a policy of having our employees, consultants and advisors execute proprietary information and invention agreements when they begin working for us. However, these agreements may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure.

Our means of protecting our proprietary rights may not be adequate, and our competitors may:

- independently develop substantially equivalent proprietary information and techniques;
- otherwise gain access to our proprietary information; or
- design around patents issued to us or our other intellectual property.

If the inventions described in our patent applications on full-length or partial genes, proteins and antibodies are found to be unpatentable, our issued patents are not enforced or our patent applications conflict with patent applications filed by others, our revenues may decline.

One of our strategies is to file patent applications on what we believe to be novel full-length and partial genes, proteins, antibodies and SNPs obtained through our efforts to discover the order, or sequence, of the molecules, or bases, of genes. We have filed U.S. patent applications in which we claimed partial genes. We have also applied for patents in the U.S. and other countries claiming full-length genes associated with cells and tissues involved in our gene sequencing program. We hold a number of issued U.S. patents on full-length genes, the proteins they encode and antibodies directed against them and one issued U.S. patent claiming multiple partial genes. While the United States Patent and Trademark Office has issued patents covering full-length genes, partial genes and SNPs, the Patent and Trademark Office may choose to interpret new guidelines for the issuance of patents in a more restrictive manner in the future, which could affect the issuance of our pending patent applications. We also do not know whether or how courts may enforce our issued patents, if that becomes necessary. If a court finds these types of inventions to be unpatentable, or interprets them narrowly, the value of our patent portfolio and possibly our revenues could be diminished.

We believe that some of our patent applications claim genes and partial genes that may also be claimed in patent applications filed by others. In some or all of these applications, a determination of priority of inventorship may need to be decided in an interference before the United States Patent and Trademark Office, before a patent is issued. If a full-length or partial length genes for which we seek a patent is issued to one of our competitors, we may be unable to include that full-length or partial length gene in a library of bioreagents. This could result in a loss of revenues.

If the effective term of our patents is decreased due to changes in the United States patent laws or if we need to refile some of our patent applications, the value of our patent portfolio and the revenues we derive from it may be decreased.

The value of our patents depends in part on their duration. A shorter period of patent protection could lessen the value of our rights under any patents that we obtain and may decrease the revenues we derive from our patents. The U.S. patent laws were amended in 1995 to change the term of patent protection from 17 years from patent issuance to 20 years from the earliest effective filing date of the application. Because the average time from filing to issuance of biotechnology applications is at least one year and may be more than three years depending on the subject matter, a 20-year patent term from the filing date may result in substantially shorter patent protection. Also, we may need to refile some of our applications claiming large numbers of genes and, in these situations, the patent term will be measured from the date of the earliest priority application. This would shorten our period of patent exclusivity and may decrease the revenues that we might obtain from the patents.

If patent application filing fees are significantly increased, our expenses related to intellectual property or our intellectual property strategy may be adversely affected.

Our ability to license proprietary genes may be dependent on our ability to obtain patents. We believe we have the largest commercial portfolio of issued United States patents covering human full-length genes, the proteins they encode and the antibodies directed against them. If legislation currently proposed by the United States Patent and Trademark Office is adopted, fees associated with filing and prosecuting patent applications

would increase significantly. If such fees are significantly increased, we would incur higher expenses and our intellectual property strategy could be adversely affected.

International patent protection is particularly uncertain, and if we are involved in opposition proceedings in foreign countries, we may have to expend substantial sums and management resources.

Biotechnology patent law outside the United States is even more uncertain than in the United States and is currently undergoing review and revision in many countries. Further, the laws of some foreign countries may not protect our intellectual property rights to the same extent as U.S. laws. We may participate in opposition proceedings to determine the validity of our foreign patents or our competitors' foreign patents, which could result in substantial costs and diversion of our efforts.

REGULATORY RISKS

If we are unable to obtain regulatory approval to develop and market products in the United States and foreign jurisdictions, we or our future collaborators might not be permitted to commercialize products from our research.

Before commencing clinical trials in humans, we, or our future collaborators, will need to submit and receive approval from the FDA of an Investigational New Drug application, or IND. The regulatory process also requires preclinical testing. Data obtained from preclinical and clinical activities are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. In addition, delays or rejections may be encountered based upon changes in regulatory policy for product approval during the period of product development and regulatory agency review. Any failure to obtain regulatory approval could delay or prevent us from commercializing products.

Due, in part, to the early stage of our drug candidate research and development process, we cannot predict whether regulatory approval will be obtained for any product we, or our future collaborators, hope to develop. Significant research and development efforts will be necessary before any products can be commercialized. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product and requires the expenditure of substantial resources.

If regulatory approval of a product is granted, this approval will be limited to those disease states and conditions for which the product is demonstrated through clinical trials to be safe and efficacious. We cannot ensure that any compound developed by us, alone or with others, will prove to be safe and efficacious in clinical trials and will meet all of the applicable regulatory requirements needed to receive marketing approval.

Outside the United States, our ability, or that of our future collaborative partners, to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. This foreign regulatory approval process typically includes all of the risks associated with FDA approval described above and may also include additional risks.

Because our activities involve the use of hazardous materials, we may be subject to claims relating to improper handling, storage or disposal of these materials that could be time consuming and costly.

Our research and development processes involve the controlled use of hazardous and radioactive materials and biological waste. Our operations produce hazardous waste products. We cannot eliminate the risk of accidental contamination or discharge and any resultant injury from these materials. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and waste products. We may be sued for any injury or contamination that results from our use or the use by third parties of these materials, and our liability may exceed our insurance coverage and our total assets.

Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair our research, development and production efforts.

Future changes to environmental, health and safety laws could cause us to incur additional expense or restrict our operations. In addition, our future collaborators may use hazardous materials in connection with our collaborative efforts. To our knowledge, their work is performed in accordance with applicable biosafety regulations. In the event of a lawsuit or investigation, however, we could be held responsible for any injury caused to persons or property by exposure to, or release of, these hazardous materials used by these parties. Further, we may be required to indemnify our collaborators against all damages and other liabilities arising out of our development activities or products produced in connection with these collaborations.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

The Company is exposed to interest rate risk primarily through its investments in short-term marketable debt securities. The Company's investment policy calls for investment in short term, low risk, investment-grade instruments. As of December 31, 2002, investments in marketable debt securities were $428.3 million. Due to the nature of these investments, if market interest rates were to increase immediately and uniformly by 10% from levels as of December 31, 2002, the decline in fair value would not be material.

The Company is exposed to equity price risks on the marketable portion of equity securities included in its portfolio of investments and long-term investments, entered into to further its business and strategic objectives. These investments are in small capitalization stocks in the pharmaceutical/biotechnology industry sector. The Company typically does not attempt to reduce or eliminate its market exposure on these securities. As of December 31, 2002, long-term investments were $35.5 million.

The Company is exposed to foreign exchange rate fluctuations as the financial results of its foreign operations are translated into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact the Company's financial position or results of operations. All of the Company's revenues are denominated in U.S. dollars. The Company does not enter into forward exchange contracts as a hedge against foreign currency exchange risk on transactions denominated in foreign currencies or for speculative or trading purposes. If currency exchange rates were to fluctuate immediately and uniformly by 10% from levels as of December 31, 2002, the impact to the Company's financial position or results of operations would not be material.

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Incyte Corporation

We have audited the accompanying consolidated balance sheets of Incyte Corporation, formerly known as Incyte Genomics, Inc., as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at item 15 (a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated financial position of Incyte Corporation, formerly known as Incyte Genomics, Inc., at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002 upon adoption of Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets".

/s/ ERNST & YOUNG LLP

Palo Alto, California
January 31, 2003, except for Note 16 and for the second
sentence of the first paragraph of Note 1 as to which the dates
are February 18, 2003 and March 15, 2003, respectively

INCYTE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except number of shares and par value)

	December 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,928	$ 43,368
Marketable securities—available-for-sale	406,090	464,535
Accounts receivable, net(1)	8,485	54,038
Prepaid expenses and other current assets(2)	21,268	29,280
Total current assets	458,771	591,221
Property and equipment, net	31,787	47,927
Long-term investments(3)	35,515	45,272
Intangible and other assets, net(4)	26,066	21,139
Total assets	$ 552,139	$ 705,559
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,073	$ 7,347
Accrued compensation	14,319	18,812
Interest payable	3,903	4,060
Royalties payable	926	5,001
Accrued and other current liabilities(5)	6,214	11,873
Deferred revenue	11,662	24,045
Accrued restructuring charges	31,596	14,970
Total current liabilities	77,693	86,108
Convertible subordinated notes	172,036	179,248
Total liabilities	249,729	265,356
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued and outstanding at December 31, 2002 and 2001	—	—
Common stock, $0.001 par value; 200,000,000 shares authorized; 67,177,591 and 66,745,577 shares issued and outstanding at December 31, 2002 and 2001, respectively	67	67
Additional paid-in capital	708,163	707,412
Deferred stock-based compensation	(3,250)	(8,127)
Accumulated other comprehensive income	2,454	8,990
Accumulated deficit	(405,024)	(268,139)
Total stockholders' equity	302,410	440,203
Total liabilities and stockholders' equity	$ 552,139	$ 705,559

(1) Includes receivables from companies considered related parties under SFAS 57 of $0.6 million and $10.9 million at December 31, 2002 and 2001, respectively.

(2) Includes loan receivable from a company considered a related party under SFAS 57 of $1.5 million and $0 million at December 31, 2002 and 2001, respectively, and prepaid expenses to companies considered related parties under SFAS 57 of $2.1 million and $1.4 million at December 31, 2002 and 2001, respectively.

(3) Includes investments in companies considered related parties under SFAS 57 of $26.1 million and $17.3 million at December 31, 2002 and 2001, respectively.

(4) Includes loans to executive officers of $0.8 million and $0 million at December 31, 2002 and 2001, respectively. See Note 4.

(5) Includes accruals of payments to companies considered related parties under SFAS 57 of $1.5 million and $0 million at December 31, 2002 and 2001, respectively.

See accompanying notes

INCYTE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31,		
	2002	2001	2000
Revenues(1)	$ 101,612	$ 219,263	$ 194,167
Costs and expenses:			
Research and development(2)	152,373	213,336	192,556
Selling, general and administrative(3)	47,147	70,626	64,201
Loss on sale of assets	313	5,777	—
Other expenses(4)	37,331	130,372	—
Total costs and expenses	237,164	420,111	256,757
Loss from operations	(135,552)	(200,848)	(62,590)
Interest and other income (expense), net(5)	9,434	23,453	41,735
Interest expense	(9,802)	(10,128)	(10,529)
Gain (loss) on certain derivative financial instruments	(1,782)	553	—
Gain on repurchase of convertible subordinated notes	1,937	2,386	3,137
Losses from joint venture	—	—	(1,283)
Loss before income taxes and accounting change	(135,765)	(184,584)	(29,530)
Provision for income taxes	1,120	930	205
Loss before accounting change	(136,885)	(185,514)	(29,735)
Cumulative effect of accounting change	—	2,279	—
Net loss	$ (136,885)	$ (183,235)	$ (29,735)
Per share data:			
Loss before accounting change	$ (2.03)	$ (2.80)	$ (0.47)
Cumulative effect of accounting change	—	0.03	—
Basic and diluted net loss per share	$ (2.03)	$ (2.77)	$ (0.47)
Shares used in computing basic and diluted net loss per share	67,403	66,193	63,211

(1) Includes revenues from transactions with companies considered related parties under SFAS 57 of $1.7 million, $27.0 million and $0 for the years ended December 31, 2002, 2001 and 2000, respectively.

(2) Includes expenses from transactions with companies considered related parties under SFAS 57 of $11.7 million, $0.6 million and $0 million for the years ended December 31, 2002, 2001 and 2000, respectively, and stock based compensation charges of $0 million, $0.1 million and $0 million in 2002, 2001 and 2000, respectively.

(3) Includes stock-based compensation charges of $4.2 million, $1.3 million and $0.3 million in 2002, 2001 and 2000, respectively, and compensation expense related to loans to executive officers of $0.4 million, $0 million and $0 million in 2002, 2001 and 2000, respectively.

(4) 2002 charges relate to restructuring charges. 2001 charges include the following: $68.7 million—goodwill and intangibles impairment; $55.6 million—restructuring charges and $6.1 million—impairment of a long-lived asset.

(5) Includes gains on investments in companies considered related parties under SFAS 57 of $1.5 million, $0 million and $0 million for the years ended December 31, 2002, 2001 and 2000, respectively.

See accompanying notes

INCYTE CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended December 31,		
	2002	2001	2000
Net loss	$ (136,885)	$ (183,235)	$ (29,735)
Other comprehensive income (loss):			
Unrealized gains (losses) on marketable securities	(7,666)	(13,919)	17,446
Reclassification adjustment for realized gains on marketable securities	1,373	1,993	172
Foreign currency translation adjustment	(243)	3	(148)
Other comprehensive income (loss)	(6,536)	(11,923)	17,470
Comprehensive loss	$ (143,421)	$ (195,158)	$ (12,265)

See accompanying notes

INCYTE CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except number of shares)

	Common Stock	Additional Paid-in Capital	Deferred Compensation	Receivable From Stockholder	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balances at January 1, 2000	$ 58	$ 222,776	$ (806)	$ (20)	$ 3,443	$ (55,169)	$ 170,282
Issuance of 2,448,612 shares of Common Stock upon exercise of stock options and 214,617 shares of Common Stock under the ESPP	3	28,625	—	—	—	—	28,628
Issuance of 4,000,000 shares of Common Stock in private equity offering	4	403,351	—	—	—	—	403,355
Issuance of 1,248,522 shares of Common Stock and deferred compensation from stock options assumed in the acquisition of Proteome, Inc.	1	34,640	(2,479)	—	—	—	32,162
Amortization of deferred compensation	—	—	512	—	—	—	512
Repayment of receivable from stockholder	—	—	—	20	—	—	20
Other comprehensive income	—	—	—	—	17,470	—	17,470
Net loss	—	—	—	—	—	(29,735)	(29,735)
Balances at December 31, 2000	66	689,392	(2,773)	—	20,913	(84,904)	622,694
Issuance of 752,191 shares of Common Stock upon exercise of stock options and 301,763 shares of Common Stock under the ESPP	1	11,645	—	—	—	—	11,646
Other	—	(234)	—	—	—	—	(234)
Deferred compensation on issuance of restricted stock units	—	7,933	(7,933)	—	—	—	—
Adjustment of deferred compensation for terminated employees	—	(1,324)	1,324	—	—	—	—
Amortization of deferred compensation	—	—	1,255	—	—	—	1,255
Other comprehensive loss	—	—	—	—	(11,923)	—	(11,923)
Net loss	—	—	—	—	—	(183,235)	(183,235)
Balances at December 31, 2001	67	707,412	(8,127)	—	8,990	(268,139)	440,203
Issuance of 1,133,045 shares of Common Stock upon exercise of stock options and 433,969 shares of Common Stock under the ESPP	1	7,181	—	—	—	—	7,182
Other	—	72	—	—	—	—	72
Adjustment of deferred compensation for terminated employees	—	(1,180)	1,180	—	—	—	—
Amortization of deferred compensation	—	—	3,697	—	—	—	3,697
Stock compensation expense	—	400	—	—	—	—	400
Repurchase of 1,135,000 shares of Common Stock	(1)	(5,722)	—	—	—	—	(5,723)
Other comprehensive loss	—	—	—	—	(6,536)	—	(6,536)
Net loss	—	—	—	—	—	(136,885)	(136,885)
Balances at December 31, 2002	$ 67	$ 708,163	$ (3,250)	$ —	$ 2,454	$ (405,024)	$ 302,410

See accompanying notes

INCYTE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**
Cash flows from operating activities:			
Net loss	$ (136,885)	$ (183,235)	$ (29,735)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash restructuring charges and impairment of long-lived assets	16,720	109,423	—
Depreciation and amortization	23,206	46,410	34,330
Stock-based compensation	4,097	1,255	512
Gain on repurchase of convertible subordinated notes	(1,937)	(2,386)	(3,137)
Compensation expense on executive loans	350	—	—
Cumulative effect of accounting change	—	(2,279)	—
(Gain) loss on derivative financial instruments, net	1,782	(553)	—
Impairment of long-term investments	9,734	14,665	1,033
Realized gain on long-term investments, net	(1,187)	(2,505)	(5,417)
Loss on sale of assets	313	5,777	—
Debt instruments and equity received in exchange for goods or services provided	(2,688)	(8,100)	(6,600)
Losses from joint venture	—	—	1,283
Changes in operating assets and liabilities:			
Accounts receivable	45,553	(21,406)	(8,414)
Prepaid expenses and other assets	(10,061)	(14,916)	(19,824)
Accounts payable	1,726	(10,150)	10,816
Accrued and other current liabilities	3,394	19,557	14,912
Deferred revenue	(12,383)	1,439	(3,703)
Net cash used in operating activities	(58,266)	(47,004)	(13,944)
Cash flows from investing activities:			
Capital expenditures	(11,890)	(12,919)	(59,510)
Purchase of long-term investments	(5,000)	(28,019)	(3,494)
Proceeds from the sale of long-term investments	2,637	4,337	7,917
Purchase of subsidiary (net of cash received)	—	—	(36,866)
Purchases of marketable securities	(749,352)	(888,366)	(822,357)
Sales of marketable securities	534,009	601,884	274,267
Maturities of marketable securities	271,974	297,226	112,950
Loans to executive officers	(1,150)	—	—
Other	—	300	—
Net cash provided by (used in) investing activities	41,228	(25,557)	(527,093)
Cash flows from financing activities:			
Proceeds from issuance of common stock under stock plans	7,182	11,268	31,297
Proceeds from private equity offering	—	—	403,355
Repurchase of common stock	(5,723)	—	—
Proceeds from the issuance of Convertible Subordinated Notes	—	—	196,800
Repurchase of Convertible Subordinated Notes	(4,690)	(5,643)	(11,872)
Principal payments on capital lease obligations and note payable	—	—	(480)
Other	72	145	20
Net cash provided by (used in) financing activities	(3,159)	5,770	619,120
Effect of exchange rate on cash and cash equivalents	(243)	4	(148)
Net increase (decrease) in cash and cash equivalents	(20,440)	(66,787)	77,935
Cash and cash equivalents at beginning of period	43,368	110,155	32,220
Cash and cash equivalents at end of period	$ 22,928	$ 43,368	$ 110,155
Supplemental Schedule of Cash Flow Information			
Interest paid	$ 9,564	$ 9,526	$ 6,219
Taxes paid	$ 1,000	$ 780	$ 226
Cash Flow for Acquisition of Subsidiaries			
Tangible assets acquired (excluding $808 cash received in 2000)	$ —	$ —	$ 1,597
Goodwill and other intangible assets acquired	—	—	70,771
Acquisition costs incurred	—	—	(2,300)
Liabilities assumed	—	—	(1,039)
Deferred compensation assumed	—	—	2,479
Common stock issued	—	—	(34,642)
Cash paid for acquisition (net of $808 cash received in 2000)	$ —	$ —	$ 36,866
Supplemental Disclosure of Non-Cash Activity			
Deferred compensation on restricted stock units	$ —	$ 7,933	$ —
Reversal of deferred compensation	$ (1,180)	$ (1,324)	$ —

See accompanying notes

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Business. Incyte Corporation (the "Company"), formerly Incyte Genomics, Inc., was incorporated in Delaware in April 1991. In March 2003, the Company changed its name to Incyte Corporation. The Company is a drug discovery company that develops proprietary genomic information and applies its expertise in medicinal chemistry and molecular, cellular and in vivo biology to the discovery of novel small molecule and protein therapeutics. The Company believes it has created the largest commercial portfolio of issued United States patents covering human, full-length genes and the proteins they encode, and licenses this intellectual property, as well as markets this genomic and proteomic information, to many of the world's leading pharmaceutical and biotechnology companies and academic research centers. The Company has assembled an experienced and talented drug discovery team that is identifying potential new drug therapies for cancer, inflammatory diseases and other medical conditions.

Principles of Consolidation. The consolidated financial statements include the accounts of Incyte Corporation and its wholly owned subsidiaries. All material intercompany accounts, transactions, and profits have been eliminated in consolidation.

Reclassifications. Certain amounts reported in previous years have been reclassified to conform to 2002 financial statement presentation.

Use of Estimates. The preparation of financial statements in conformity 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.

Foreign Currency Translation. The financial statements of subsidiaries outside the United States are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date, as appropriate. The resultant translation adjustments are included in the accumulated other comprehensive income (loss), a separate component of stockholders' equity. Income and expense items are translated at average monthly rates of exchange.

Concentrations of Credit Risk. Cash, cash equivalents, short-term investments, trade receivables, and long-term strategic investments are financial instruments which potentially subject the Company to concentrations of credit risk. The estimated fair value of financial instruments approximates the carrying value based on available market information. The Company primarily invests its excess available funds in notes and bills issued by the U.S. government and its agencies and corporate debt securities and, by policy, limits the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued or guaranteed by the U.S. government. The Company's customers are primarily pharmaceutical and biotechnology companies which are typically located in the United States and Europe. The Company has not experienced any significant credit losses on cash, cash equivalents, short-term investments or trade receivables to date and does not require collateral on receivables. The Company's long-term investments represent equity and debt investments in a number of companies whose businesses may be complementary to the Company's business. The Company routinely evaluates the long-term investments for impairment and such evaluations require significant management judgment. The Company records an investment impairment charge when it believes that the investment has experienced a decline in value that is other than temporary. The determination of whether an impairment is other than temporary consists of a review of qualitative and quantitative factors by members of senior management. Generally, declines that persist for six months or more are considered other than temporary. The Company uses the best information available in these assessments, however, the information available may be limited. These determinations involve significant management judgment, and actual amounts realized for any specific investment may differ from the recorded values. Future adverse changes in market conditions, poor

operating results of underlying investments, or company valuations being lowered due to future financing or other specific activity within such company, could result in additional impairment charges. The activity on discrete investments within the Company's portfolio, in any given quarter, may result in gains or losses on sales or impairment charges. For the years ended December 31, 2002, 2001 and 2000, the Company recognized impairment charges related to long-term investments of $9.8 million, $14.7 million and $1.0 million, respectively. (See *Long-Term Investments*)

Cash and Cash Equivalents. Cash and cash equivalents are held in U.S. banks or in custodial accounts with U.S., U.K. and Japan banks. Cash equivalents are defined as all liquid investments with maturity from date of purchase of 90 days or less that are readily convertible into cash and have insignificant interest rate risk.

Marketable Securities—Available-for-Sale. All marketable securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, based on quoted market prices, with unrealized gains and losses reported as a separate component of stockholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretions of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other than temporary for available-for-sale securities are included in interest and other income/expense. The cost of securities sold is based on the specific identification method.

The following is a summary of the Company's marketable security portfolio including cash equivalents of $22.2 million and $35.4 million as of December 31, 2002 and 2001, respectively.

	Amortized Cost	Net Unrealized Gains (Losses)	Estimated Fair Value
		(in thousands)	
December 31, 2002			
U.S. Treasury notes and other U.S. government and agency securities	$ 146,314	$ 1,589	$ 147,903
Corporate debt securities	278,684	1,696	280,380
Long term equity investments	1,381	124	1,505
	$ 426,379	$ 3,409	$ 429,788
December 31, 2001			
U.S. Treasury notes and other U.S. government and agency securities	$ 131,086	$ 533	$ 131,619
Corporate debt securities	363,764	4,567	368,331
Long term equity investments	4,947	4,602	9,549
	$ 499,797	$ 9,702	$ 509,499

At December 31, 2002 and 2001, all of the Company's debt investments are classified as short-term, as the Company has classified its investments as available for sale and may not hold its investments until maturity in order to take advantage of market conditions. Unrealized losses were not material and have therefore been netted against unrealized gains. At December 31, 2002, the Company's debt marketable securities had the following maturities:

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Less than one year	$260,243	$ 261,954
Between one and two years	146,800	148,239
Between two and three years	17,955	18,090
	$424,998	$ 428,283

Net realized gains of $1.4 million, $2.0 million and $0.2 million from sales of marketable securities were included in "interest and other income/expense, net" in 2002, 2001 and 2000, respectively.

Accounts Receivable. Accounts receivable at December 31, 2002 and 2001 included an allowance for doubtful accounts of $0.5 million and $2.1 million, respectively, with a portion of the allowance reflecting reserves for activities exited in the 2001 restructuring.

Property and Equipment. Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets (generally three to five years). Leasehold improvements are amortized over the shorter of the estimated useful life of the assets or lease term. Property and equipment consists of the following:

	December 31,	
	2002	2001
	(in thousands)	
Office equipment	$ 4,968	$ 4,944
Laboratory equipment	24,489	21,149
Computer equipment	70,817	75,906
Leasehold improvements	31,010	33,433
	131,284	135,432
Less accumulated depreciation and amortization	(99,497)	(87,505)
	$ 31,787	$ 47,927

Depreciation expense, including amortization expense of assets under capital leases and leasehold improvements, was $19.1 million, $31.2 million and $28.9 million for 2002, 2001 and 2000, respectively.

Certain laboratory and computer equipment used by the Company could be subject to technological obsolescence in the event that significant advancement is made in competing or developing equipment technologies. Management continually reviews the estimated useful lives of technologically sensitive equipment and believes that those estimates appropriately reflect the current useful life of its assets. In the event that a currently unknown significantly advanced technology became commercially available, the Company would re-evaluate the value and estimated useful lives of its existing equipment, possibly having a material impact on the financial statements.

Valuation of Long-Lived Assets. Long-lived assets, including certain identifiable intangible assets and goodwill, to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable such as a significant industry downturn or a significant decline in the market value of the Company. Determination of recoverability is based on an estimate of undiscounted cash flows resulting from the use of the asset and its eventual disposition. Measurement of impairment charges for long-lived assets and certain identifiable intangible assets including goodwill relating to those assets that management expects to hold and use are based on the fair value of such assets. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Long-Term Investments. The Company has made equity and debt investments in a number of companies whose businesses may be complementary to the Company's business. The Company accounts for its investments for which the shares are freely tradable or become freely tradable within one year of the balance sheet date in accordance with Financial Accounting Standard Board ("FASB") Statement No. 115, *Accounting for CertainInvestments in Debt and Equity Securities ("SFAS 115")*, with unrealized gains and losses being reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity. In all other cases, the cost method of accounting is used. The Company owns less than 20% of the outstanding voting stock of each long-term investment, and does not have the ability to exert significant influence over these investments.

Derivative Financial Instruments. The Company holds warrants to purchase equity securities of other companies. Warrants that can be exercised and settled by delivery of net shares such that the Company pays no cash upon exercise or that are held in public companies are deemed derivative financial instruments. Gains and losses resulting from changes in fair value are recognized on the consolidated statement of operations, "Gain (loss) on certain derivative financial instruments" in the period of change. The Company determines the fair value of its warrants through option pricing models using current market price and volatility assumptions. The Company adopted FASB Statement No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities ("SFAS 133")* on January 1, 2001 and recorded a $2.3 million cumulative gain, or $0.03 per share, relating to the valuation of warrants held in other companies, which is recorded in the consolidated statements of operations as a cumulative effect of accounting change. The asset balances are included in long-term investments.

Joint Venture. In September 1997, the Company formed a joint venture, diaDexus, LLC, with SmithKline Beecham Corporation ("SB"), to utilize genomic and bioinformatic technologies in the discovery and commercialization of molecular diagnostics. The Company and SB each held a 50 percent equity interest in diaDexus and the Company accounted for the investment under the equity method. On April 4, 2000, diaDexus converted from an LLC to a corporation and completed a private equity financing, at which time the Company no longer had significant influence over diaDexus. Accordingly, the Company began accounting for its investment in diaDexus under the cost method of accounting as of the date of the financing. (See *Note 12).*

Other Intangible Assets. In July 2001, the FASB issued Statement No. 142, *Goodwill and Other Intangible Assets ("SFAS 142")*. SFAS 142 requires, among other things, the discontinuance of goodwill amortization and includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, and reclassification of certain intangibles out of previously reported goodwill. The adoption of this statement on January 1, 2002 did not have a material impact on the Company's consolidated financial statements; however, it requires disclosure of the effect of the application of SFAS 142 on all periods presented as if the adoption of the statement occurred as of January 1, 2000. The

reconciliation of reported net income (loss) for the adoption of SFAS 142 is as follows (in thousands, except per share amounts):

	For the Year Ended December 31,		
	2002	2001	2000
Reported loss before accounting change	$ (136,855)	$ (185,514)	$ (29,735)
Add back: Goodwill amortization	—	6,938	2,030
Add back: Assembled workforce amortization	—	540	115
Adjusted loss before accounting change	$ (136,855)	$ (178,036)	$ (27,590)
Reported net loss	$ (136,855)	$ (183,235)	$ (29,735)
Add back: Goodwill amortization	—	6,938	2,030
Add back: Assembled workforce amortization	—	540	115
Adjusted net loss	$ (136,855)	$ (175,757)	$ (27,590)
Basic and diluted net loss per share:			
Reported loss before accounting change	$ (2.03)	$ (2.80)	$ (0.47)
Goodwill amortization	—	0.10	0.03
Assembled workforce amortization	—	0.01	—
Adjusted loss before accounting change	$ (2.03)	$ (2.69)	$ (0.44)
Reported net loss	$ (2.03)	$ (2.77)	$ (0.47)
Goodwill amortization	—	0.10	0.03
Assembled workforce amortization	—	0.01	—
Adjusted net loss	$ (2.03)	$ (2.66)	$ (0.44)

The Intangible and other assets, net totaling $26.1 million and $21.1 million at December 31, 2002 and 2001, respectively, consist of $20.1 million and $15.8 million of other intangibles, net at December 31, 2002 and 2001, respectively and $6.0 million and $5.3 million of other assets at December 31, 2002 and 2001, respectively. Other intangible assets consist of the following (in thousands):

	December 31, 2002			December 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Other Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Other Intangibles, Net
Capitalized patents	$ 14,465	$ (1,582)	$ 12,883	$ 7,404	$ (478)	$ 6,926
Capitalized software	7,638	(2,797)	4,841	6,736	(748)	5,988
Acquired database technology	2,638	(429)	2,209	2,638	(61)	2,577
Other intangibles	362	(171)	191	362	(25)	337
Total	$ 25,103	$ (4,979)	$ 20,124	$ 17,140	$ (1,312)	$ 15,828

Costs of patents and patent applications are capitalized and amortized on a straight-line basis over their estimated usefully lives of approximately 10 years in accordance with the provisions of Accounting Principles Board Opinion No. 17, *Intangible Assets ("APB 17")*. Capitalized software costs, which consist of software development costs incurred in developing certain products once the technological feasibility of the products has been determined, are recorded in accordance with FASB Statement No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed ("SFAS 86")*, and are amortized on a straight-line basis over the estimated useful life of 3 years. Acquired database technology and other intangible assets recorded in conjunction with the acquisition of Proteome, Inc. are being amortized using the straight-line method over

estimated useful lives ranging from 3 to 8 years. Amortization expense for the years ended December 31, 2002, 2001 and 2000 related to other intangibles, including goodwill, was $3.7 million, $14.8 million and $7.3 million, respectively.

The expected future annual amortization expense of other intangible assets is as follows (in thousands):

Year ended December 31,	Amortization Expense
	(in thousands)
2003	$ 3,942
2004	3,917
2005	2,731
2006	1,974
2007	1,876
Thereafter	5,684
Total future amortization expense	$ 20,124

See Note 15 for a discussion of impairment charges recognized in 2001.

Internal Use Software. The Company accounts for software developed or obtained for internal use in accordance with Statement of Position 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use ("SOP 98-1")*. The statement requires capitalization of certain costs incurred in the development of internal-use software, including external direct material and service costs, employee payroll and payroll related costs. Capitalized software costs, which are included in property and equipment, are depreciated over three to five years.

Royalties Payable. Royalties payable arise from the sublicense of third party patents. These costs are accrued and matched with revenue recognition in the period of the recording of revenue. The amount accrued at December 31, 2002 arises from the sale of information products for which we owe royalties to third parties.

Accumulated Other Comprehensive Income. Accumulated Other Comprehensive Income consists of the following:

	December 31,	
	2002	2001
	(in thousands)	
Unrealized gains on marketable securities	$ 3,409	$ 9,702
Cumulative translation adjustment	(955)	(712)
	$ 2,454	$ 8,990

Revenue Recognition. Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable and collectibility is reasonably assured. The Company enters into various types of agreements for access to its databases of information, use of its intellectual property and sales of its custom genomics products and services. Revenues are deferred for fees received before earned or until no further obligations exist.

Revenues from ongoing database agreements are recognized evenly over the access period. Revenues from licenses to the Company's intellectual property are recognized when earned under the terms of the related agreements. Royalty revenues are recognized upon the sale of the products or services to third parties by the licensee or other agreed upon terms.

Revenues from custom products, such as clones and datasets, are recognized upon completion and delivery. Revenues from custom services are recognized upon completion of contract deliverables. Revenues from gene expression microarray services includes: technology access fees, which are recognized ratably over the access term, and progress payments, which are recognized at the completion of key stages in the performance of the service in proportion to the costs incurred.

Revenues recognized from multiple element contracts are allocated to each element of the arrangement based on the relative fair values of the elements. The determination of fair value of each element is based on objective evidence from historical sales of the individual element by the Company to other customers. If such evidence of fair value for each element of the arrangement does not exist, all revenues from the arrangement are deferred until such time that evidence of fair value does exist or until all elements of the arrangement are delivered. In accordance with Staff Accounting Bulletin No. 101 ("SAB 101"), when elements are specifically tied to a separate earnings process, revenues are recognized when the specific performance obligation associated with the element is completed. When revenues for an element are not specifically tied to a separate earnings process they are recognized ratably over the term of the agreement.

When contracts include non-monetary payments, the value of the non-monetary transaction is determined using the fair value of the products and services involved, as applicable. For non-monetary payments involving the receipt of equity in a public entity, the fair value is based on the traded stock price on the date revenue is earned. For non-monetary payments involving the receipt of equity in a privately-held company, fair value is determined either based on a current or recent arm's length financing by the issuer or upon an independent valuation of the issuer.

Revenues received from agreements in which customers paid with equity or debt instruments in their company were $2.4 million, $8.1 million and $6.6 million for the years ended December 31, 2002, 2001 and 2000, respectively. Additionally, revenues received from agreements in which the Company concurrently invested funds in the customer's stock were $0.7 million, $14.1 million and $6.4 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Revenues recognized from agreements executed prior to 2002 in which a concurrent commitment was entered into by the Company to purchase goods or services from the other party for the years ended December 31, 2002, 2001 and 2000 were $4.0 million, $24.7 million and $6.7 million, respectively. No transactions in which there was a concurrent commitment by the Company to purchase goods or services were entered into during the year ended December 31, 2002. Of commitments made in prior periods, the Company expensed $22.0 million, $18.7 million and $1.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The above transactions were recorded at fair value in accordance with the Company's revenue recognition policy.

Research and Development. Research and development costs are charged to operations as incurred.

Stock-Based Compensation. In accordance with the provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation ("SFAS 123")*, the Company has elected to continue applying the provisions APB Opinion No. 25, *Accounting for Stock Issued to Employees ("APB 25")*, as amended by FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation ("FIN 44")*, in accounting for its stock-based compensation plans. Accordingly, the Company does not recognize compensation expense for stock options granted to employees and directors when the stock option price at the grant date is equal to or greater than the fair market value of the stock at that date.

The fair value of each option and employee purchase right was estimated at the date of grant using a Black-Scholes option-pricing model, assuming no expected dividends and the following weighted average assumptions:

	Employee Stock Options			Employee Stock Purchase Plan		
	For the Years Ended December 31,			For the Years Ended December 31,		
	2002	2001	2000	2002	2001	2000
Average risk-free interest rates	2.77%	4.25%	6.26%	1.80%	4.41%	5.89%
Average expected life (in years)	3.31	3.46	3.04	0.50	0.50	0.50
Volatility	89%	86%	92%	84%	98%	76%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following illustrates the pro forma effect on net loss and net loss per share as if the Company had applied the fair value recognition provisions of SFAS 123:

	For the Years Ended December 31,		
	2002	2001	2000
	(in thousands, except per share amounts)		
Net loss, as reported	$ (136,885)	$ (183,235)	$ (29,735)
Add: Stock-based compensation, as reported	4,169	1,405	336
Deduct: Total stock-based compensation determined under the fair value based method for all awards	(21,284)	(20,160)	(21,101)
Pro forma net loss, SFAS 123 adjusted	$ (154,000)	$ (201,990)	$ (50,500)
Basic and diluted net loss per share—as reported	$ (2.03)	$ (2.77)	$ (0.47)
Basic and diluted net loss per share—SFAS 123 adjusted	$ (2.28)	$ (3.05)	$ (0.80)

The weighted average fair value of stock awards (including restricted stock units) granted during 2002, 2001 and 2000 was $4.40, $10.56 and $28.30 per share, respectively. The average fair value of the employees' purchase rights under the Employee Stock Purchase Plan during 2002, 2001 and 2000 is estimated at $4.08, $8.34 and $6.67, respectively, on the date of grant using the Black-Scholes multiple-options pricing model.

The Company also records, and amortizes over the related vesting periods, deferred compensation representing the difference between the price per share of stock issued or the exercise price of stock options granted and the fair value of the Company's common stock at the time of issuance or grant.

Advertising Costs. All costs associated with advertising products are expensed in the year incurred. Advertising expense for the years ended December 31, 2002, 2001 and 2000, was $0.3 million, $1.4 million and $2.5 million, respectively.

Pronouncements Adopted in 2002. In April 2002, the FASB issued Statement No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS*

145"). By rescinding FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt ("SFAS 4"),* the FASB eliminated the requirement to classify gains and losses from extinguishment of debt as extraordinary items. SFAS 145 indicates that these gains and losses should only be classified as extraordinary if they meet the criteria in APB Opinion No. 30. The adoption of the statement on April 1, 2002 caused the Company to change its classification of all gains and losses from the repurchase of its convertible subordinated notes from "Extraordinary Gain" to "Gain on repurchase of convertible subordinated notes," which is an element of "Other Income".

In October 2001, the FASB issued Statement No. 144, *Accounting for the Impairment of Long-Lived Assets* (*"SFAS 144"*). The FASB's new rules on asset impairment supersede FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of,* and portions of APB Opinion 30, Reporting the Results of Operations. SFAS 144 provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. SFAS 144 also requires expected future operating losses from discontinued operations to be displayed in the period in which the losses are incurred, rather than as of the measurement date as presently required. The adoption of this statement on January 1, 2002 caused the Company to change its classification of all gains and losses on fixed asset disposition from a component of "Interest and other income, net" to a component of operating expenses.

New Pronouncements. In August 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146").* SFAS 146 supersedes EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ("EITF 94-3").* SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Additionally, SFAS 146 establishes that fair value is the objective for initial measurement of the liability. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of the statement on January 1, 2003 will not impact the Company's consolidated financial statements through December 31, 2002.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure ("SFAS 148").* SFAS 148 amends FASB Statement No. 123, *Accounting for Stock-Based Compensation ("SFAS 123")* to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 to require more prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS 148 also amends APB Opinion No. 28, *Interim Financial Reporting ("APB 28")* to require disclosure about the net income effects in interim financial information. The provisions of this statement are effective for financial statements for fiscal years ending after December 15, 2002. The disclosure provisions of this statement have been included in the Company's 2002 notes to consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others, ("FIN 45").* FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have an impact on the Company's results of operations or financial position.

In November 2002, the Emerging Issues Task Force ("EITF") issued a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables ("EITF Issue No. 00-21")*. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We are currently evaluating the effect that the adoption of EITF Issue No. 00-21 will have on our results of operations and financial position.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities ("FIN 46")*. The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities by requiring the variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. The Company believes that none of its investments qualify as entities that require consolidation under FIN 46 and will adopt this Interpretation in the third quarter of fiscal year 2003.

Note 2. Concentrations of Credit Risk

As of December 31, 2002, the Company had entered into agreements for information products and services, which includes licensing a portion of the Company's intellectual property, with over 100 pharmaceutical, biotechnology and agricultural companies and academic institutions. Over 96%, 79% and 75% of revenues in 2002, 2001 and 2000, respectively, were derived from such agreements. In general, collaborators agree to pay, during the term of the agreement, fees to receive non-exclusive access to selected modules of the Company's databases and/or licenses of certain of its intellectual property. In addition, if a collaborator develops certain products utilizing the Company's technology or proprietary information, royalty payments could potentially be received by the Company.

One customer contributed 11% of total revenues for the year ended December 31, 2000. No customer contributed 10% or more of revenues for the years ended December 31, 2002 or 2001.

Three customers comprised 45% of the accounts receivable balance at December 31, 2002. Three customers comprised 48% of the accounts receivable balance at December 31, 2001.

One long-term strategic investment comprised 42% of the total strategic investments balance at December 31, 2002. Three investments comprised 51% of the total strategic investments balance at December 31, 2001. The activity on discrete investments within the Company's portfolio, in any given quarter, may result in gains or losses on sales or impairment charges.

Note 3. Commitments

At December 31, 2002, the Company had noncancelable operating leases on multiple facilities and equipment, including facilities in Palo Alto, California; Newark, Delaware; St. Louis, Missouri; Beverly, Massachusetts; and Cambridge, England. The leases expire on various dates ranging from May 2003 to March 2011. Certain leases have renewal options for periods ranging up to 5 years. Rent expense, excluding rent expense recognized in the restructuring charges, for the years ended December 31, 2002, 2001 and 2000, was approximately $11.6 million, $13.1 million and $12.7 million.

At December 31, 2002, future noncancelable minimum payments under operating leases, including leases for sites included in the restructuring programs, were as follows:

Year ended December 31,	Operating Leases (in thousands)
2003	$ 15,196
2004	10,151
2005	9,169
2006	8,318
2007	7,573
Thereafter	24,902
Total minimum lease payments	$ 75,309

The Company also has purchase commitments of $11.3 million at December 31, 2002, the timing of which is dependent upon provision by the vendor of products or services. Additionally, the Company has committed to purchase equity in certain companies when certain events occur. The total amount committed is $5.0 million. These commitments are considered contingent commitments as a future event must occur in order to cause the commitment to be enforceable.

Note 4. Other assets

In January 2002, in connection with his employment by the Company as President and Chief Scientific Officer, Robert B. Stein received an interest-free loan from the Company in the amount of $750,000 to be used toward the purchase of a residence in California. The loan is evidenced by a promissory note and secured by the residence. On November 26, 2004, 50% of the outstanding principal balance will be forgiven, and the remaining outstanding principal balance of the loan will be forgiven on November 26, 2005, if Dr. Stein is still employed by the Company on those dates. Any acceleration of the loan or termination of Dr. Stein's employment relationship with the Company prior to the then-applicable forgiveness date will terminate and void any remaining right of Dr. Stein to receive any forgiveness of the then-outstanding principal balance of the loan.

In March 2002, in connection with his employment by the Company as Executive Vice President and Chief Drug Discovery Scientist, Brian W. Metcalf received an interest-free loan from the Company in the amount of $400,000 to be used for financing his residence in California. The loan is evidenced by a promissory note and secured by the residence. On February 6, 2003, 25% of the outstanding principal balance will be forgiven, and 1/48 of the principal amount will be forgiven on the last day of each month thereafter, with the remaining outstanding principal balance of the loan forgiven on February 6, 2006, if Dr. Metcalf is still employed by the Company on those dates. Any acceleration of the loan or termination of Dr. Metcalf's employment relationship with the Company prior to the then-applicable forgiveness date will terminate and void any remaining right of Dr. Metcalf to receive any forgiveness of the then-outstanding principal balance of the loan.

The Company amortizes these loans on a straight-line basis over the forgiveness periods. Compensation expense related to this amortization was $0.4 million for the year ended December 31, 2002.

Note 5. Convertible Subordinated Notes

In February 2000, in a private placement, the Company issued $200.0 million of convertible subordinated notes, which resulted in net proceeds of approximately $196.8 million. The notes bear interest at 5.5%, payable semi-annually on February 1 and August 1, and are due February 1, 2007. The notes are subordinated to all senior indebtedness, as

defined. The notes can be converted at the option of the holder at an initial conversion price of $67.42 per share, subject to adjustment. The Company may, at its option, redeem the notes at any time before February 7, 2003, but only if the Company's stock price exceeds 150% of the conversion price for 20 trading days in a period of 30 consecutive trading days. On or after February 7, 2003 the Company may, at its option, redeem the notes at specific prices. Holders may require the Company to repurchase the notes upon a change in control, as defined.

The Company repurchased on the open market, and retired, $6.7 million, $8.0 million and $15.0 million in face value of convertible subordinated notes during the years ended December 31, 2002, 2001 and 2000, respectively. Gains of $1.9 million, $2.4 million and $3.1 million on these transactions were recognized for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, the Company had repurchased $29.7 million face value of the notes on the open market. All gains on repurchase of convertible subordinated notes are presented as "Gain on repurchase of convertible subordinated notes."

Note 6. Stockholders' Equity

Common Stock. At December 31, 2002, the Company had reserved a total of 18,608,165 shares of its common stock for issuance upon exercise of outstanding and available for issuance stock options and purchases under the Employee Stock Purchase Plan described below and the conversion of the convertible subordinated notes described in Note 5. In July 2000, the Company's Board of Directors authorized a two-for-one stock split effected in the form of a stock dividend paid on August 31, 2000 to holders of record on August 7, 2000. All share and per share data have been adjusted retroactively to reflect the split.

On June 6, 2000, the Company's stockholders approved an increase in the number of shares authorized for issuance from 75,000,000 to 200,000,000.

In October 2002, the Company announced that its board of directors authorized the expenditure of up to $30 million to repurchase shares of the Company's common stock in open market and privately negotiated transactions. Through December 31, 2002, the Company repurchased, and retired, 1,135,000 shares for an aggregate purchase price of $5.7 million.

Preferred Stock. The Company is authorized to issue 5,000,000 shares of preferred stock, none of which was outstanding at December 31, 2002 or 2001. The Board of Directors may determine the rights, preferences and privileges of any preferred stock issued in the future. The Company has reserved 500,000 shares of preferred stock designated as Series A Participating Preferred Stock for issuance in connection with the Stockholders Rights plan described below.

Sales of Stock. In February 2000, in a private offering, the Company issued 4,000,000 shares of common stock at $105.50 per share. Net proceeds from this offering were approximately $403.4 million, net of offering expenses.

Stock Compensation Plans. Summaries of stock option activity for the Company's stock option plans as of December 31, 2002, 2001 and 2000, and related information for the years ended December 31 are included in the plan descriptions below.

1991 Stock Plan. In November 1991, the Board of Directors adopted the 1991 Stock Plan (the "Stock Plan"), which was amended and restated for issuance of common stock to employees, consultants, and scientific advisors. Options issued under the plan shall, at the discretion of the compensation committee of the Board of Directors, be either incentive stock options, nonstatutory stock options or restricted stock units. The exercise prices of incentive and non-statutory stock options granted under the plan are not less than the fair market value

on the date of the grant, as determined by the Board of Directors. Options generally vest over four years, pursuant to a formula determined by the Company's Board of Directors, and expire after ten years. Certain options granted in 2002 vest over three years and expire after ten years. In June 2002, the Company's stockholders approved an increase in the number of shares of common stock reserved for issuance under the plan from 19,900,000 to 22,350,000.

During 2001, the Company granted 490,000 restricted stock units under the Stock Plan to certain management personnel. In connection with the grant of these restricted stock units, the Company recorded deferred compensation of $7.9 million in 2001. These restricted stock units have cliff vesting terms over one to four years and are being amortized to stock compensation expense over those vesting terms. During 2002, two executives who were granted restricted stock units terminated their employment with the Company. Accordingly, the Company reduced deferred compensation by $1.1 million to reflect the restricted stock units forfeited.

1998 Proteome Stock Plan. In October 1998, Proteome's Board of Directors approved and adopted the Proteome, Inc. 1998 Employee, Director and Consultant Stock Option Plan, as amended through August 6, 1999 (the "Proteome Plan"). Under the Proteome Plan, Proteome could grant incentive stock options and non-qualified options to purchase the equivalent of 216,953 shares of Incyte common stock. Incentive stock options could be granted to employees at exercise prices of no less than 100% of the fair value of the common stock on the grant date, as determined by the board of directors or a committee of the board of directors. Non-qualified options could be granted to employees, outside directors and consultants who provided services to Proteome at exercise prices no less than par value of the common stock, as determined by the board of directors or a committee of the board of directors. Options could be granted with different vesting terms from time to time and options issued under the Proteome Plan expire no more than 10 years after the date of grant. All outstanding options at the time of the merger with Incyte were converted to options to purchase Incyte common stock, and the Proteome Plan was assumed by the Company. No further options will be granted under the Proteome Plan.

Non-Employee Directors' Stock Option Plan. In August 1993, the Board of Directors approved the 1993 Directors' Stock Option Plan (the "Directors' Plan"), which was amended. The Directors' Plan provides for the automatic grant of options to purchase shares of common stock to non-employee directors of the Company. In June 2002, the Company's stockholders approved an increase in the number of shares of common stock reserved for issuance under the plan from 800,000 to 1,100,000.

From the inception of the plan through March 1998, the Directors' Plan provided that each new non-employee director joining the Board would receive an option to purchase 80,000 shares of common stock. In March 1998, the Directors Plan was amended to eliminate this initial grant. In May 2001, the Directors' Plan was amended to provide that each new non-employee director joining the Board would receive an option to purchase 20,000 shares of common stock. In December 2001, the Directors' Plan was amended to provide that this initial option shall cover the purchase of 30,000 shares of common stock. Additionally, members who continue to serve on the Board will receive annual option grants for 5,000 shares exercisable in full on the first anniversary of the date of the grant. All options are exercisable at the fair market value of the stock on the date of grant. At December 31, 2002, the Company had options outstanding under the Directors' Plan to purchase 592,919 shares of common stock at a weighted average exercise price of $10.426 (668,000 and 535,000 shares of common stock at a weighted average exercise price of $10.756 and $8.819 at December 31, 2001 and 2000, respectively); 473,542 shares are vested and exercisable at December 31, 2002 (536,000 and 495,000 shares were vested and exercisable at December 31, 2001 and 2000, respectively). In 2002 and 2000, 55,000 and 120,000 shares of common stock, respectively, were purchased under the Directors' Plan at a weighted average exercise price of $2.474 and $1.36, respectively. No options were exercised prior to 2000.

Activity under the combined plans was as follows:

	Shares Available for Grant	Shares Subject to Outstanding Options	
		Shares	Weighted Average Exercise Price
Balance at January 1, 2000	1,305,167	10,419,904	$ 11.71
Additional authorization	2,600,000	—	—
Options granted	(1,043,922)	1,043,922	39.59
Options exercised	—	(2,446,632)	10.85
Options canceled	754,593	(754,593)	17.50
Balance at December 31, 2000	3,615,838	8,262,601	14.96
Additional authorization	2,500,000	—	—
Options granted	(4,543,832)	4,543,832	17.66
Options exercised	—	(752,191)	11.01
Options canceled	1,633,830	(1,673,468)	22.75
Balance at December 31, 2001	3,205,836	10,380,774	15.18
Additional authorization	2,750,000	—	—
Options granted	(3,876,975)	3,876,975	7.44
Options exercised	—	(1,133,045)	4.29
Options canceled	1,933,565	(1,967,931)	19.06
Balance at December 31, 2002	4,012,426	11,156,773	$ 12.20

Options to purchase a total of 4,779,088, 4,139,069 and 3,469,661 shares at December 31, 2002, 2001 and 2000, respectively, were exercisable. Of the options exercisable, 4,779,088, 4,127,069 and 3,469,661 shares were vested at December 31, 2002, 2001 and 2000, respectively.

Options Assumed in Proteome Acquisition. As part of the Proteome acquisition, Proteome stock option holders received options to purchase 216,953 shares of Incyte common stock with a weighted average exercise price of $7.60. The Company recognized $2,479,000 of deferred compensation related to these options, which is being amortized over the vesting period of the options. In connection with the workforce reduction related to the restructurings in 2002 and 2001, the Company terminated certain Proteome stock option holders included in the original calculation and reduced the deferred compensation by $0.1 million and $1.3 million at December 31, 2002 and 2001. Options to purchase a total of 29,372, 41,181 and 40,651 shares were vested and exercisable at December 31, 2002, 2001 and 2000, respectively.

The following table summarizes information about stock options outstanding at December 31, 2002, for the 1991 Stock Plan, the 1996 Synteni Stock Plan, the 1998 Proteome Stock Plan, and the 1993 Non-employee Directors' Stock Option Plan:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.01– 3.48	971,819	3.45	$ 1.23	367,735	$ 1.33
3.62– 5.24	1,287,732	9.11	5.10	163,705	4.27
5.47– 7.89	1,394,250	9.76	6.12	36,846	5.94
8.06– 10.72	837,719	5.36	9.64	770,021	9.64
11.06– 13.80	1,482,109	8.86	12.30	202,558	12.93
13.81– 14.75	1,784,882	7.66	14.32	1,044,122	14.23
15.06– 16.19	1,674,603	7.48	15.60	1,039,108	15.39
16.38– 21.94	909,919	6.87	19.42	653,067	18.99
22.13– 39.75	686,490	7.61	25.35	417,446	25.74
41.06–119.88	127,250	7.37	53.27	84,480	54.13
	11,156,773	7.61	12.20	4,779,088	14.94

Employee Stock Purchase Plan. On May 21, 1997, the Company's stockholders adopted the 1997 Employee Stock Purchase Plan ("ESPP"). In June 2002, the Company's stockholders approved an increase in the number of shares of common stock reserved for issuance under the plan from 1,600,000 to 2,100,000. Each regular full-time and part-time employee working 20 hours or more per week is eligible to participate after one month of employment. The Company issued 433,969, 301,763 and 214,617 shares under the ESPP in 2002, 2001 and 2000, respectively. As of December 31, 2002, 913,009 shares remain available for issuance under the ESPP.

Stockholders Rights Plan. On September 25, 1998, the Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan"), pursuant to which one preferred stock purchase right (a "Right") was distributed for each outstanding share of common stock held of record on October 13, 1998. One Right will also attach to each share of common stock issued by the Company subsequent to such date and prior to the distribution date defined below. Each Right represents a right to purchase, under certain circumstances, a fractional share of the Company's Series A Participating Preferred Stock at an exercise price of $100.00, subject to adjustment. In general, the Rights will become exercisable and trade independently from the common stock on a distribution date that will occur on the earlier of (i) the public announcement of the acquisition by a person or group of 15% or more of the common stock or (ii) ten days after commencement of a tender or exchange offer for the common stock that would result in the acquisition of 15% or more of the common stock. Upon the occurrence of certain other events related to changes in ownership of the common stock, each holder of a Right would be entitled to purchase shares of common stock, or an acquiring corporation's common stock, having a market value of twice the exercise price. Under certain conditions, the Rights may be redeemed at $0.01 per Right by the Board of Directors. The Rights expire on September 25, 2008.

Note 7. Income Taxes

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Current			
Foreign	$ 985	$ 830	$ 125
State	135	100	80
Total provision for income taxes	$ 1,120	$ 930	$ 205

Income (loss) before provision for income taxes and cumulative effect of accounting change consisted of the following (in thousands):

	Year Ended December 31,		
	2002	2001	2000
U.S. taxable entities	$ (136,122)	$ (184,584)	$ (29,530)
Other	357	—	—
	$ (135,765)	$ (184,584)	$ (29,530)

The provision for income taxes before cumulative effect of accounting change differs from the federal statutory rate as follows (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Provision (benefit) at U.S. federal statutory rate	$ (47,518)	$ (64,604)	$ (10,336)
Unbenefitted net operating losses	46,159	46,572	10,047
Restructuring charges and long-lived asset impairments	—	15,791	—
Other	2,479	3,171	494
Provision for income taxes	$ 1,120	$ 930	$ 205

Significant components of the Company's deferred tax assets are as follows (in thousands):

	December 31	
	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	$ 146,200	$ 105,000
Research credits	17,500	16,000
Capitalized research and development	22,200	16,800
Accruals and reserves	10,000	11,800
Other, net	11,400	1,000
Total gross deferred tax assets	207,300	150,600
Less valuation allowance for deferred tax assets	(206,300)	(149,400)
Net deferred tax assets	1,000	1,200
Deferred tax liabilities:		
Purchased intangibles	1,000	1,200
Net deferred tax assets and liabilities	$ —	$ —

The valuation allowance for deferred tax assets increased by approximately $56.9 million, $57.5 million and $48.5 million during the years ended December 31, 2002, 2001 and 2000, respectively. Approximately $59.0 million of the valuation allowance for deferred tax assets relates to benefits from stock option deductions which, when recognized, will be allocated directly to contributed capital.

The Company's management believes the uncertainty regarding the timing of the realization of net deferred tax assets requires a valuation allowance.

As of December 31, 2002, the Company had federal net operating loss carryforwards of approximately $417.2 million. The Company also had federal research and development tax credit carryforwards of approximately $11.8 million. The net operating loss carryforwards will expire at various dates, beginning in 2009 through 2022, if not utilized.

Utilization of the net operating losses and credits may be subject to an annual limitation, due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions.

Note 8. Net Loss Per Share

Options to purchase 11,156,773, 10,380,774 and 8,262,601 shares of common stock were outstanding at December 31, 2002, 2001 and 2000, respectively, which were not included in the computation of diluted net loss per share, as their effect was anti-dilutive. The Company's Convertible Subordinated Notes, convertible into 2,525,957, 2,625,334 and 2,743,993 shares of common stock at December 31, 2002, 2001 and 2000, respectively, were not included in the computation of diluted net loss per share, as the effect of their assumed conversion would be anti-dilutive.

Note 9. Defined Contribution Plan

The Company has a defined contribution plan covering all domestic employees. Employees may contribute a portion of their compensation, which is then matched by the Company, subject to certain limitations. Defined contribution expense for the Company was $1.5 million, $2.0 million and $1.7 million in 2002, 2001 and 2000, respectively.

Note 10. Segment Reporting

The Company's operations are treated as one operating segment, in accordance with FASB Statement No. 131 ("SFAS 131"). For the twelve months ended December 31, 2002, the Company recorded revenue from customers throughout the United States and in Austria, Belgium, Canada, France, Denmark, Germany, India, Israel, Japan, the Netherlands, Switzerland, and the United Kingdom. Export revenues for the years ended December 31, 2002, 2001 and 2000 were $34.8 million, $50.8 million, $48.2 million, respectively.

Note 11. Business Combinations

Acquisitions accounted for under the purchase method of accounting

In December 2000, the Company completed the acquisition of Proteome, Inc., a privately held proteomics information company based in Beverly, Massachusetts. The Company issued 1,248,522 shares of its common stock and $37.7 million in cash in exchange for all of Proteome's outstanding capital stock. In addition, the Company assumed Proteome's stock options, which if fully vested and exercised, would amount to 216,953 shares of its common stock. The transaction was accounted for as a purchase. The amount of the purchase price in excess of the net tangible assets acquired of $70.8 million, was allocated to goodwill ($50.3 million); acquired database technology ($16.6 million); tradename ($1.7 million); Proteome's assembled work force ($1.6 million); and developed technology ($0.6 million), each of which is being amortized over 8, 8, 3, 3 and 5 years, respectively.

The Company allocated Proteome's purchase price based on the relative fair value of the net tangible and intangible assets acquired. In performing this allocation, the Company considered, among other factors, the technology research and development projects in process at the date of acquisition. The results of operations of Proteome have been included in the consolidated results of the Company from the date of acquisition on December 28, 2000.

The table below presents the pro forma results of operations and earnings per share for Proteome and the Company. The transaction is assumed to be completed on January 1, 2000 for the period ended December 31, 2000 (in thousands except per share data).

	2000
Revenues	$ 197,881
Net loss	$ 47,306
Pro forma basic and diluted net loss per share	$ 0.73
Pro forma shares for basic and diluted net loss per share	64,460

Note 12. Joint Venture

In September 1997, the Company formed a joint venture, diaDexus, LLC ("diaDexus"), with SmithKline Beecham Corporation ("SB"), to utilize genomic and bioinformatic technologies in the discovery and commercialization of molecular diagnostics. The Company held a 50 percent equity interest in diaDexus and accounted for the investment under the equity method. In July 1999, the Company and SB each invested an additional $2.5 million in diaDexus through convertible notes.

On April 4, 2000, diaDexus obtained additional financing through a private equity offering. In connection with the offering, diaDexus converted from an LLC to a corporation and repaid in full the $2.5 million principal amount of, together with accrued interest on, the convertible note held by the company. Under diaDexus' new capital structure, the Company no longer has the ability to exert significant influence over diaDexus. Accordingly, the Company accounts for its investment in diaDexus under the cost method of accounting as of the date of the financing.

diaDexus purchased $0 million, $0.1 million and $2.6 million of contract sequencing, microarray and software services from the Company in the year ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, the Company had no receivables outstanding from diaDexus related to these services.

Note 13. Litigation

Affymetrix

On December 21, 2001, the Company settled the following existing patent infringement litigation with Affymetrix, Inc.: Affymetrix, Inc. v. Synteni, Inc. and Incyte Pharmaceuticals, Inc., Case Nos. C 99-21164 JF and C 99-21165 JF (N.D. Cal.); Incyte Genomics, Inc. v. Affymetrix, Inc., Case No. C 01-20065 JF (N.D. Cal.); and the Incyte Opposition to Affymetrix's European Patent No. EP 0 619 321. The first lawsuit involved several of Affymetrix's microarray-related patents. The second lawsuit involved our RNA amplification patents and two additional microarray-related patents held by Affymetrix. As a part of the settlement, the companies have agreed to certain non-exclusive, royalty-bearing licenses and an internal use license under their respective intellectual property portfolios. Pursuant to the settlement, the Company received a net cash settlement that was recorded as

revenue in 2001. On December 2, 2002, the Company agreed to settle its appeal before the United States District Court for the Northern District of California seeking de novo review of the Board of Patent Appeals and Interferences' decision relating to patent applications licensed by us from Stanford University (Case No. C99-21111JF).

Invitrogen

On October 17, 2001, Invitrogen Corporation filed a complaint for patent infringement against Incyte in the United States District Court for the District of Delaware. On November 21, 2001, the Company filed its answer to Invitrogen's complaint. In addition, the Company asserted seven counterclaims against Invitrogen seeking declaratory relief with respect to the patents at issue, implied license, estoppel, laches, and patent misuse. The Company is also seeking its fees, costs, and expenses. Invitrogen filed its answer to the Company's counterclaims on January 9, 2002. The parties are presently engaged in discovery. The Company believes it has meritorious defenses and intends to defend vigorously the suit brought by Invitrogen.

On November 21, 2001, the Company filed a complaint against Invitrogen as amended on December 21, 2001 and March 7, 2002, in the United States District Court for the Southern District of California alleging infringement of thirteen of its patents. Eight of the asserted patents are gene patents. Three of the patents relate to RNA amplification and gene expression. Two of the patents relate to methods of fabricating microarrays of biological samples. The complaint seeks a permanent injunction enjoining Invitrogen from further infringement of the patents at issue, damages for Invitrogen's conduct, as well as the Company's fees, costs, and interest. The Company further seeks triple damages based on Invitrogen's willful infringement of its patents.

Invitrogen has represented to the Court that its past sales of the eight GeneStorm cDNA clones charged with infringement of eight of the Company's patents were not substantial and that it no longer sells these products. The parties are presently engaged in discovery concerning the RNA amplification and gene expression and the microarray fabrication patents.

The Company believes it has meritorious defenses and intends to defend vigorously the suit brought by Invitrogen. However, its defenses may be unsuccessful. At this time, the Company cannot reasonably estimate the possible range of any loss resulting from this suit due to uncertainty regarding the ultimate outcome. Further, there can be no assurance that any license that may be required as a result of this litigation or the outcome thereof would be made available on commercially acceptable terms, if at all. Regardless of the outcome, the Invitrogen litigation is expected to result in future costs to the Company, which could be substantial.

Note 14. Related Party Transactions

The following summarizes the Company's related party transactions as defined by FASB Statement No. 57, *Related Party Disclosures ("SFAS 57")*. In each of the transactions noted in which a director of the Company was at the time of the transaction in some way affiliated with the other party to the transaction, such director recused himself from voting on the related party transaction. For the years ended December 31, 2002, 2001 and 2000, revenues from transactions with companies considered to be related parties as defined by SFAS 57 were $1.7 million, $27.0 million and $0, respectively. At December 31, 2002 and 2001, accounts receivable from related parties were $0.6 million and $10.9 million, respectively, and loans receivable from related parties were $2.3 million and $0 million, respectively. At December 31, 2002 and 2001, prepaid expenses to related parties were $2.1 million and $1.4 million, respectively.

In March 2001, the Company entered into a LifeSeq Collaboration Agreement, Patent License Agreement, Collaboration and Technology Transfer Agreement and Proteome BioKnowledge Library License Agreement with Genomic Health, Inc. ("Genomic Health"). Randal W. Scott, who served as Chairman of the Board of the Company until November 2001 and as a director of the Company through December 2001, is Chairman of the Board, President and Chief Executive Officer of Genomic Health and owns more than 10% of the outstanding capital stock of Genomic Health. Julian C. Baker, who joined the Company's Board in November 2001, is also a director of Genomic Health and holds shares, directly or beneficially, of both companies. Under the agreements, Genomic Health obtained access to the Company's LifeSeq Gold database and BioKnowledge Library and received licenses to certain of the Company's intellectual property. Amounts Genomic Health is paying the Company under these agreements are similar to those paid to the Company under agreements between the Company and unrelated third parties. The Company received rights to certain intellectual property that Genomic Health may, in the future, develop. At the same time, the Company purchased shares of Series C Preferred Stock of Genomic Health for an aggregate purchase price of $5.0 million. In addition, in November 2000, the Company purchased shares of Series A Preferred Stock of Genomic Health for an aggregate purchase price of $1.0 million. Under certain circumstances and if Genomic Health so elects, the Company has agreed to purchase in a future offering of Genomic Health's capital stock an aggregate of $5.0 million of the shares being sold in that offering.

In May 2001, the Company entered into a Development and License Agreement with Iconix Pharmaceuticals, Inc. ("Iconix"). Jon S. Saxe, a director of the Company, is Chairman of the Board of Iconix. Roy A. Whitfield, who is Chairman of the Board of the Company, is also a director of Iconix and is serving as the Company's representative on the board. Under the agreement, Iconix obtained an exclusive license to the Company's LifeExpress Lead database, access to LifeSeq and ZooSeq databases, licenses to certain of the Company's intellectual property and use of the Company's LifeArray expression array technology. Amounts Iconix is paying the Company under these agreements are similar to those paid to the Company under agreements between the Company and unrelated third parties. The Company is the exclusive distributor for the database product developed by Iconix. At the same time, the Company purchased shares of Series E Preferred Stock of Iconix for an aggregate purchase price of $10.0 million. In the first quarter of 2002, the Company purchased $5.0 million of shares of Series F Preferred Stock of Iconix, fulfilling a commitment set forth in the agreements described above. The Company owned more than 10% of the outstanding capital stock of Iconix at December 31, 2002 and 2001.

In September 2001, the Company entered into a Technology Access for Licensed Reagent Manufacture Agreement with Epoch Biosciences, Inc. ("Epoch"). Frederick B. Craves, a director of the Company, is Chairman of the Board of Epoch and Bay City Capital, of which Dr. Craves is a partner, holds shares of Epoch stock. Dr. Craves also holds shares of Epoch stock directly. Under the agreements, Epoch obtained access to the Company's LifeSeq Gold and ZooSeq databases and received licenses to certain of the Company's intellectual property. Amounts Epoch has paid the Company under these agreements are similar to those paid to the Company under agreements between the Company and unrelated third party customers. The Company has identified Epoch as the preferred provider of certain probes to Incyte's users of LifeSeq Gold. Additionally, Epoch will supply the Company with certain probes for internal development purposes.

In September 2001, the Company entered into a Collaboration Agreement, Patent License Agreement and two Unilateral Development and Commercialization Agreements with Medarex, Inc. ("Medarex"). Frederick B. Craves, a director of the Company, is also a director of Medarex and Bay City Capital, of which Dr. Craves is a partner, holds shares of Medarex stock. Under the agreements, Medarex obtained access to the Company's LifeSeq Gold database and received licenses to certain of the Company's intellectual property. Amounts Medarex has paid the Company under these agreements are similar to those paid to the Company under agreements between the Company and unrelated third party customers. Additionally, under the terms of the

agreements, Medarex and the Company expect to share equally the cost and responsibility of preclinical and clinical development of antibody products. In addition, the two companies plan to jointly commercialize any antibody products resulting from this collaboration.

In January 2002, the Company assigned its lease agreement for its Fremont, California facility to Genospectra, Inc. ("Genospectra"). Frederick B. Craves, a director of the Company, is also a director of Genospectra. The Company does not expect to have any further obligations pursuant to this lease.

In March 2002, the Company converted $3.0 million of convertible notes from Odyssey Pharmaceuticals, Inc. ("Odyssey") into 1,705,919 shares of Odyssey's preferred stock, resulting in the Company owning more than 10% of the outstanding capital stock of Odyssey at December 31, 2002. The number of shares received upon conversion reflects the number pursuant to the related agreement. The Company has recorded a gain on this conversion of $0.8 million.

During the third quarter of 2002, the Company loaned $1.5 million to Maxia Pharmaceuticals, Inc. ("Maxia") in connection with its exclusive negotiations with Maxia regarding an acquisition or other strategic transaction. Frederick B. Craves, a director of the Company, is a partner of Bay City Capital, which holds shares of Maxia stock. In exchange for the loan, Maxia issued to the Company a $1.5 million senior convertible note that bears interest at 8% per annum and can be converted into Maxia common stock a set conversion price. On November 12, 2002, the Company announced that it entered into a definitive agreement to acquire Maxia for up to $28.3 million in cash and stock and up to $14 million in future clinical performance milestone payments. See also Note 16.

In addition, the Company loaned Maxia an aggregate of $1.4 million to cover their operating expenses during the period between the signing of the merger agreement and the consummation of the merger. In exchange for the loan, Maxia issued to the Company a second senior convertible note. Through December 31, 2002, the Company had funded $0.9 million under this note, which was charged to research and development expense. Although the Company's analysis of purchase price allocation remains incomplete, the Company expects to record a charge in the first quarter of 2003 to the extent the final analysis concludes that total purchase price should be allocated to in-process research and development or other expenses.

Frederick B. Craves, one of the Company's directors, is a partner of Bay City Capital, which held shares of Maxia stock. The transaction with Maxia was negotiated at arms' length and, because Dr. Craves is a director of both companies, a special committee of the Board of Directors, which did not include Dr. Craves, was formed to consider and approve this related party transaction.

Note 15. Other Expenses

During 2002 and 2001, the Company reported other expenses of $37.3 million and $130.4 million, respectively, relating to restructuring programs and long-lived asset write-downs announced in the fourth quarter of each year. The other expenses recognized in 2002 are comprised of charges of $33.9 million and $3.4 million relating to the restructuring programs from 2002 and 2001, respectively, as discussed in the following information relating to these restructuring programs.

2002 Restructuring

	Original Charge Recorded in 2002	2002 Cash Payments	2002 Non-Cash Charges	Accrual Balance as of December 31, 2002
		(in thousands)		
Restructuring expenses:				
Workforce reduction	$ 7,325	$ (2,458)	$ —	$ 4,867
Equipment and other assets	8,662	—	(8,662)	—
Lease commitments and other restructuring charges	17,924	(440)	1,020	18,504
Other expenses	$ 33,911	$ (2,898)	$ (7,642)	$ 23,371

On November 12, 2002, the Company announced plans to reduce its expenditures, primarily in research and development, through a combination of spending reductions, workforce reductions, and office consolidations. The plan included elimination of approximately 37% of the Company's approximately 700-person workforce from its offices in Palo Alto, California, Beverly, Massachusetts, and Cambridge, England and the consolidation of its office and research facilities in Palo Alto, California. Consequently, this resulted in the Company recording an expense of $33.9 million related to restructuring activities in the fourth quarter of 2002.

The workforce reduction of approximately $7.3 million was determined based on the severance and benefits for approximately 250 employees. These employees primarily worked at the Company's Palo Alto, California location. As of January 11, 2003, all of these employees had been terminated.

Equipment and other assets that were disposed of or removed from operations were written down to their estimated fair value of $0.2 million, resulting in a charge of $8.7 million in the fourth quarter of 2002. Assets held for sale are expected to be sold within one year. The write-down of equipment and other assets relates primarily to leasehold improvements, computer equipment and related software, lab equipment and office equipment associated with the activities being exited and related infrastructure reductions. The Company estimated the fair value of equipment and other assets based on the then current market conditions.

Lease commitments and other restructuring related charges have been accrued of $17.9 million for facilities leases related to the sites being exited and professional fees. Specifically, the Company is exiting two buildings located in Palo Alto, California. The Company estimated the costs based on the contractual terms of agreements and then current real estate market conditions. It is estimated that it will take the Company twelve months to sublease the various properties that have been vacated. The two leases related to sites being exited expire in July 2003 and December 2010.

The estimates above have been made based upon management's best estimate of the amounts and timing of certain events included in the restructuring plan that will occur in the future. It is possible that the actual outcome of certain events may differ from the estimates. Changes will be made to the restructuring accrual at the point that the differences become determinable.

2001 Restructuring and Other Impairments

	Original Charge Recorded in 2001	Accrual Balance as of December 31, 2001	2002 Cash Payments	2002 Non-Cash Charges	Accrual Balance as of December 31, 2002
			(in thousands)		
Restructuring expenses:					
Workforce reduction	$ 8,114	$ 2,888	$ (2,857)	$ (31)	$ —
Equipment and other assets	32,629	—	—	—	—
Lease commitments and other restructuring charges	14,859	12,082	(7,163)	3,306	8,225
Subtotal	55,602	14,970	(10,020)	3,275	8,225
Impairment of goodwill and other intangible assets	68,666	—	—	—	—
Impairment of other long-lived assets	6,104	—	—	—	—
Other expenses	$ 130,372	$ 14,970	$ (10,020)	$ 3,275	$ 8,225

On October 25, 2001, the Company announced a restructuring of its operations in order to focus on its database licensing and partnership programs and its therapeutic drug discovery and development programs. As a part of the restructuring, the Company discontinued its microarray-based gene expression products and services, genomic screening products and services, public domain clone products and related services, contract sequencing services and internal program on single nucleotide polymorphism (SNP) discovery. Consequently, this resulted in the Company recording an expense of $55.6 million related to restructuring activities in the fourth quarter of 2001. In addition, in the fourth quarter of 2001 the Company recorded a reduction in goodwill and other intangible assets and impairment of other long-lived assets totaling $74.8 million. During 2002, the Company also recorded an additional charge of $3.4 million, which is comprised of a $0.7 million charge related to assets disposed of at prices less than originally estimated, a $3.3 million charge related to non-cash increases to the accrual as described below and a $0.6 million benefit related to reserves in excess of amounts originally estimated. Revenues from exited product lines for the year ended December 31, 2002 and 2001 were $3.6 million and $45.3 million, respectively.

The workforce reduction charge of approximately $8.1 million was determined based on the estimated severance and fringe benefit charges for approximately 400 employees. These employees primarily worked in the activities being exited as described above and related infrastructure support positions. As of December 31, 2002, all such employees have been terminated as a result of the workforce reduction.

Equipment and other assets that were disposed of or removed from operations were written down to their estimated fair value of $0.7 million, resulting in an original charge of $32.6 million in the fourth quarter of 2001. The write-down of equipment and other assets primarily relates to leasehold improvements, computer equipment and related software, lab equipment and office equipment associated with the activities being exited and related infrastructure reductions. Additionally, the write-off of equipment and other assets also includes certain software costs related to products no longer being offered. The Company estimated the fair value of equipment and other assets based on the then current market conditions. During 2002, the Company recorded a non-cash charge of $0.7 million related primarily to assets disposed of at prices less than originally estimated.

Lease commitments and other restructuring related charges of $14.9 million have been accrued for facilities and equipment leases related to the activities being exited and contract-related provisions and settlement and professional fees. Specifically, the Company is exiting or has exited buildings located in St. Louis, Missouri;

Fremont, California; Palo Alto, California; and Cambridge, United Kingdom. The Company estimated the original charge based on the contractual terms of agreements and real estate market conditions in the fourth quarter of 2001. It was originally estimated that it would take the Company six to twelve months to sublease the various properties that are being vacated. The leases related to facilities being exited expire on various dates ranging from May 2003 to March 2007. The $3.3 million increase in this accrual recorded in the year ended December 31, 2002 is due primarily to contract-related settlements and facilities lease expenses in excess of amounts originally estimated, offset by the release of other restructuring accruals in excess of actual expenses. Additionally, in 2002, the Company also recognized a benefit of $0.6 million related to reserves in excess of the amounts originally estimated.

As a result of the Company's change in strategic direction and restructuring and, pursuant to SFAS 121, the Company performed an assessment of the carrying value of its goodwill and other intangible assets recorded in connection with its Hexagen Limited ("Hexagen") and Proteome, Inc. ("Proteome") acquisitions.

The activities acquired through the Hexagen acquisition related primarily to a method of SNP discovery. The Hexagen method of SNP discovery is one of the activities that was not continued after the change in strategic direction and restructuring. As a result, it was determined that the unamortized goodwill and intangible assets related to this acquisition have no future cash flows to support their carrying value and a $10.2 million charge was recorded to write these assets down to their estimated fair value.

The Company acquired Proteome in December 2000 and recorded goodwill and other intangible assets of $70.8 million. At that time, the Company believed the acquisition would strengthen its database offering with a larger collection of protein annotation information. In the fourth quarter of 2001, the Company found that collaborators were unwilling to pay fees to access the Proteome databases that were sufficient to support the continued investment required to build and sustain Proteome's products. In addition, the Company eliminated the positions of approximately 45% of Proteome employees. The Company considered these events to be indicators of potential impairment and performed an evaluation of the affected long-lived assets in accordance with the Company's policy. The forecast of future cash flows indicated that the long-lived assets were impaired. The Company estimated the fair value of long-lived assets by discounting the cash flow forecast using a discount rate, which represented the Company's weighted average cost of capital. As a result of the evaluation, the Company concluded that unamortized goodwill and other intangible assets were impaired and accordingly, $58.5 million was charged to operations in the fourth quarter of 2001 to write these assets down to their estimated fair value. The carrying value of these intangible assets was $2.4 million and $2.9 million at December 31, 2002 and 2001, respectively.

In reviewing its existing long-lived assets, the Company determined, based on certain impairment indicators, that an asset relating to capitalized software should be analyzed for impairment. As a result of this analysis, it was determined that the net book value of the asset was in excess of future revenues expected from sale of this software reduced by costs to sell. Therefore, it was determined that this capitalized software was impaired and the Company recognized a $6.1 million impairment charge.

The estimates above have been made, and such estimates were updated during 2002, based upon management's best estimate of the amounts and timing of certain events included in the restructuring plan that will occur in the future. It is possible that the actual outcome of certain events may differ from the estimates. Changes will be made to the restructuring accrual at the point that the differences become determinable.

16. Subsequent Events

In November 2002, we entered into an agreement to acquire Maxia Pharmaceuticals, Inc., a privately-held company based in San Diego, California. Maxia is a drug discovery and development company that specializes in

small molecule drugs targeting diabetes and other metabolic disorders, cancer, inflammatory diseases and heart disease. On February 18, 2003, one of our wholly owned subsidiaries was merged with and into Maxia. As a result of the merger:

- Maxia became a wholly owned subsidiary of Incyte;
- Each share of Maxia common stock outstanding immediately prior to the merger was converted into the right to receive 0.05496 of a share of our common stock;
- Each share of Maxia Series A Preferred Stock outstanding immediately prior to the merger was converted into the right to receive 0.20035 of a share of our common stock; and
- Each share of Maxia Series B Preferred Stock and Maxia Series C Preferred Stock outstanding immediately prior to the merger was converted into the right to receive 0.46237 of a share of our common stock and $0.14895 in cash.

The former stockholders of Maxia received, in the aggregate, approximately 2,625,820 shares of our common stock and approximately $580,000 in cash upon the consummation of the merger. We also assumed outstanding third party indebtedness of approximately $920,000. $2.5 million in cash and 975,000 shares of our common stock was paid to certain debt holders of Maxia. The cash portion of the purchase price was provided from our existing cash balances.

In addition, upon the consummation of the merger, all outstanding shares of Maxia Series A-Additional Payments, Maxia Series B-Additional Payments, Maxia Series C-Additional Payments and Maxia Common-Additional Payments were converted, in the aggregate, into the right to receive:

- up to 437,636 shares of our common stock and $500,000 in cash on the second anniversary of the consummation of the merger; and
- up to 437,636 shares of our common stock and $500,000 in cash on the third anniversary of the consummation of the merger.

Further, all outstanding shares of Maxia Series A-Earn Out, Maxia Series B-Earn Out, Maxia Series C-Earn Out and Maxia Common-Earn Out were converted, in the aggregate, into the right to receive certain Earn Out Amounts of up to a potential aggregate amount of $14.0 million upon the occurrence of certain milestones set forth in the merger agreement. Twenty percent of each earn out payment, if earned, will be paid in cash and the remaining eighty percent will be paid in shares of our common stock such that an aggregate of $2.8 million in cash and $11.2 million in our common stock could potentially be paid pursuant to the earn out milestones. The milestones occur as Maxia products enter various stages of human clinical trials and may be earned at any time prior to the tenth anniversary of the consummation of the merger.

Prior to entering into the merger agreement, in August 2002, we loaned Maxia $1.5 million in exchange for the right to negotiate with Maxia exclusively regarding an acquisition or other strategic transaction. In exchange for the loan, Maxia issued a $1.5 million senior convertible note to us. Interest on the note would have accrued at the rate of 8% per year in the event the negotiations with Maxia had terminated. The note was convertible into shares of any class or series of Maxia capital stock at a set conversion price. We forgave the principal of the note upon the consummation of the merger as a portion of the consideration in the transaction.

In addition, we loaned Maxia an aggregate of $1.4 million to cover their operating expenses during the period between the signing of the merger agreement and the consummation of the merger. In exchange for the loan, Maxia issued to us a second senior convertible note. Through December 31, 2002, we had funded

$0.9 million of Maxia's operating expenses. Although our analysis of purchase price allocation remains incomplete, we expect to record a charge in the first quarter of 2003 to the extent our final analysis concludes that total purchase price should be allocated to in-process research and development or other expenses.

Frederick B. Craves, one of our directors, is a partner of Bay City Capital, which held shares of Maxia stock. The transaction with Maxia was negotiated at arms' length and, because Dr. Craves is a director of both companies, a special committee of the Board of Directors, which did not include Dr. Craves, was formed to consider and approve this related party transaction.

Interim Consolidated Financial Information (Unaudited)
(in thousands, except per share data)

	Fiscal 2002 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenues	$ 29,014	$ 29,059	$ 22,390	$ 21,149
Net loss(2)	(13,441)	(17,541)	(38,411)	(67,492)
Basic and diluted net loss per share	$ (0.20)	$ (0.26)	$ (0.57)	$ (1.00)
Shares used in computation of basic and diluted net loss per share	66,864	67,440	67,740	67,567

	Fiscal 2001 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenues	$ 51,121	$ 56,051	$ 57,319	$ 54,772
Loss before cumulative effect of accounting change(1)	(14,977)	(9,891)	(17,827)	(145,205)
Net loss(1)	(10,312)	(9,891)	(17,827)	(145,205)
Basic and diluted loss before extraordinary item	$ (0.23)	$ (0.15)	$ (0.27)	$ (2.18)
Basic and diluted net loss per share	$ (0.16)	$ (0.15)	$ (0.27)	$ (2.18)
Shares used in computation of basic and diluted net loss per share	65,745	66,076	66,370	66,565

(1) The December 31, 2001 quarter includes $130.4 million of other expenses relating primarily to restructuring charges and long-lived asset write-downs.
(2) The December 31, 2002 quarter includes $35.7 million of other expenses relating to restructuring charges.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description—Year Ended December 31,	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
		(in thousands)		
Allowance for doubtful accounts—2000	$ 234	$ 122	$ —	$ 356
Allowance for doubtful accounts—2001	356	1,745	—	2,101
Allowance for doubtful accounts—2002	2,101	—	1,568	533

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***

The information required by this item (with respect to Directors) is incorporated by reference from the information under the caption “Election of Directors” contained in our Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our 2003 Annual Meeting of Stockholders to be held on June 23, 2003 (the “Proxy Statement”). Certain information required by this item concerning executive officers is set forth in Part I of this Report under the caption “Executive Officers of the Registrant.”

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. This disclosure is contained in the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement and is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by this item is incorporated by reference from the information under the captions “Election of Directors—Compensation of Directors” and “Executive Compensation” contained in the Proxy Statement.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information required by this item is incorporated by reference from the information under the caption “Security Ownership of Certain Beneficial Owners and Management” contained in the Proxy Statement.

Information about securities authorized for issuance under our equity compensation plans appears under the caption “Equity Compensation Plan Information” in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this report.

Item 13. ***Certain Relationships and Related Transactions***

The information required by this Item 13 is incorporated by reference from the information under the caption “Certain Relationships and Related Transactions” contained in the Proxy Statement.

PART IV

Item 14. ***Controls and Procedures***

(a) Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) There were no significant changes in the Company's internal controls or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) Documents filed as part of this report:

(1) Financial Statements

Reference is made to the Index to Consolidated Financial Statements of Incyte Corporation under Item 8 of Part II hereof.

(2) Financial Statement Schedules

The following financial statement schedule of Incyte Corporation is filed as part of this Form 10-K included in Item 8 of Part II:

Schedule II—Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2002.

All other financial statement schedules have been omitted because they are not applicable or not required or because the information is included elsewhere in the Consolidated Financial Statements or the Notes thereto.

(3) Exhibits

See Item 15(c) below. Each management contract or compensatory plan or arrangement required to be filed has been identified.

(b) Reports on Form 8-K.

The Company filed the following reports on Form 8-K during the fiscal quarter ended December 31, 2002:

(i) Current Report on Form 8-K filed on December 10, 2002, reporting under Item 5 that Affymetrix, Inc., The Board of Trustees of the Leland Stanford Junior University and the Company had agreed to settle patent infringement lawsuits.

(ii) Current Report on Form 8-K filed on December 19, 2002, reporting under Item 5 that the Company's 2003 Annual Meeting of Stockholders will be held on June 23, 2003.

(c) Exhibits

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger, dated as of November 11, 2002, by and among the Company, Maxia Pharmaceuticals, Inc. and other parties signatory thereto (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed February 25, 2003).
2.2	Amendment to Agreement and Plan of Merger, dated as of December 19, 2002, by and among the Company, Monaco Acquisition Corporation, Maxia Pharmaceuticals, Inc. and Maxia Pharmaceuticals, LLC (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed February 25, 2003).
3(i)(a)*	Integrated copy of the Restated Certificate of Incorporation, as amended.

Exhibit Number	Description of Document
3(i)(c)*	Certificate of Ownership and Merger merging Incyte Corporation into Incyte Genomics, Inc.
3(ii)	Bylaws of the Company, as amended as of June 4, 2002 (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
4.1*	Form of Common Stock Certificate.
4.2	Rights Agreement dated as of September 25, 1998 between the Company and Chase Mellon Shareholder Services, L.L.C., which includes as Exhibit B, the rights certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed September 30, 1998).
4.3	Indenture dated as of February 4, 2000 between the Company and State Street Bank and Trust Company of California, N.A., as trustee (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.1#	1991 Stock Plan of Incyte Genomics, Inc., as amended and restated on February 27, 2002 (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-91542)).
10.2#	Form of Incentive Stock Option Agreement under the 1991 Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.3#	Form of Nonstatutory Stock Option Agreement under the 1991 Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.4#	1993 Directors' Stock Option Plan of Incyte Genomics, Inc., as amended and restated (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-91556)).
10.5#	Form of Indemnity Agreement between the Company and its directors and officers (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.6	Lease Agreement dated December 8, 1994 between the Company and Matadero Creek (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
10.9	Stock Purchase Agreement dated as of June 22, 1994 between the Company and Pfizer Inc. (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated June 23, 1994).
10.10	Registration Rights Agreement dated as of June 22, 1994 between the Company and Pfizer Inc. (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated June 23, 1994).
10.11	Stock Purchase Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated November 30, 1994, as amended by Form 8-K/A filed with the Commission on March 27, 1995).
10.12	Registration Rights Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated November 30, 1994).
10.13	Reserved.

Exhibit Number	Description of Document
10.14	Lease Agreement dated June 19, 1997 between the Company and The Board of Trustees of the Leland Stanford Junior University (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.15#*	1997 Employee Stock Purchase Plan of Incyte Corporation, as amended March 15, 2003.
10.18#	1996 Synteni, Inc. Equity Incentive Stock Plan (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-8 (File No. 333-46639)).
10.19#	The Hexagen Limited Unapproved Company Share Option Plan 1996, as amended (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-67691)).
10.21	Registration Rights Agreement, dated as of December 28, 2000, by and among the Company and the Stockholders of Proteome, Inc. (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed January 10, 2001).
10.22#	1998 Employee, Director and Consultant Stock Option Plan of Proteome, Inc., as amended (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed January 29, 2001 (File No. 333-54496)).
10.23#	Form of Restricted Stock Unit Agreement under the 1991 Stock Plan of Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.24#	Transition Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and Roy A. Whitfield (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.25#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and E. Lee Bendekgey (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.26#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and Michael D. Lack (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.27#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and James P. Merryweather (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.28#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and James R. Neal (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.29#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and John M. Vuko (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.30#	Offer of Employment Letter, dated November 21, 2001, from the Company to Paul A. Friedman (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.31#	Offer of Employment Letter, dated November 16, 2001, from the Company to Robert B. Stein (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.32#	Employment Agreement, dated November 26, 2001, between Paul A. Friedman and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

Exhibit Number	Description of Document
10.33#	Employment Agreement, dated November 26, 2001, between Robert B. Stein and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.34†	Settlement Agreement dated December 21, 2001, between Affymetrix, Inc. and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.35	Lease Agreement, dated February 28, 2002, between Dupont Pharmaceuticals and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.36#	Promissory Note dated April 22, 2002 between Incyte Genomics, Inc. and Brian Metcalf and Heather Metcalf (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.37#	Promissory Note dated June 21, 2002 between Incyte Genomics, Inc. and Robert B. Stein and Faye E. Stein (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.38#	Amendment to Transition Agreement, effective as of April 1, 2002, between Incyte Genomics, Inc. and Roy A. Whitfield (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.39#	Amendment to Amended and Restated Employment Agreement, effective as of April 1, 2002, between Incyte Genomics, Inc. and James P. Merryweather (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.40#	Form of Amendment to Employment Agreement, effective as of July 24, 2002, between Incyte Genomics, Inc. and each of John M. Vuko, Lee Bendekgey, Michael D. Lack and James P. Merryweather (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.41#	Letter Agreement, dated July 25, 2002, between Incyte Genomics, Inc. and Michael D. Lack (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.42†	Letter Agreement, dated September 5, 2002, between the Company and Schering-Plough, Ltd. (incorporated by reference to Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
10.43*#	Letter Agreement, dated February 12, 2003, between Robert B. Stein and Incyte Genomics, Inc.
21.1*	Subsidiaries of the Company.
23.1*	Consent of Ernst & Young LLP, Independent Auditors.
24.1*	Power of Attorney (see page 85 of this Form 10-K).

* Filed herewith.
† Confidential treatment has been requested with respect to certain portions of these agreements.
# Indicates management contract or compensatory plan or arrangement.

(d) Financial Statements and Schedules

Reference is made to Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INCYTE CORPORATION

By: /S/ PAUL A. FRIEDMAN

Paul A. Friedman
Chief Executive Officer

Date: March 28, 2003

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Paul A. Friedman, E. Lee Bendekgey, and John M. Vuko, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

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.

Signature	Title	Date
/s/ PAUL A. FRIEDMAN **Paul A. Friedman**	Chief Executive Officer (Principal Executive Officer) and Director	March 28, 2003
/s/ ROBERT B. STEIN **Robert B. Stein**	President, Chief Scientific Officer and Director	March 28, 2003
/s/ JOHN M. VUKO **John M. Vuko**	Chief Financial Officer (Principal Financial Officer)	March 28, 2003
/s/ TIMOTHY G. HENN **Timothy G. Henn**	Senior Vice President, Finance and Corporate Controller (Principal Accounting Officer)	March 28, 2003
/s/ ROY A. WHITFIELD **Roy A. Whitfield**	Chairman	March 28, 2003
/s/ JEFFREY J. COLLINSON **Jeffrey J. Collinson**	Director	March 28, 2003
/s/ FREDERICK B. CRAVES **Frederick B. Craves**	Director	March 28, 2003
/s/ JON S. SAXE **Jon S. Saxe**	Director	March 28, 2003

Signature	Title	Date
/s/ BARRY M. ARIKO **Barry M. Ariko**	Director	March 28, 2003
Richard U. De Schutter	Director	
/S/ PAUL A. BROOKE **Paul A. Brooke**	Director	March 28, 2003
Julian C. Baker	Director	

CERTIFICATION

I, Paul A. Friedman, certify that:

1. I have reviewed this annual report on Form 10-K of Incyte Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a.) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b.) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c.) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a.) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ PAUL A. FRIEDMAN

Paul A. Friedman
Chief Executive Officer

CERTIFICATION

I, John M. Vuko, certify that:

1. I have reviewed this annual report on Form 10-K of Incyte Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a.) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b.) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c.) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a.) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ JOHN M. VUKO

John M. Vuko
Chief Financial Officer

COMPLIANCE WITH CERTIFICATION REQUIREMENTS

The certification by such officers of this report on Form 10-K, as required by Section 906 of the Sarbanes-Oxley Act of 2002, has been submitted to the SEC as additional correspondence accompanying this report.

EXHIBIT INDEX

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger, dated as of November 11, 2002, by and among the Company, Maxia Pharmaceuticals, Inc. and other parties signatory thereto (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed February 25, 2003).
2.2	Amendment to Agreement and Plan of Merger, dated as of December 19, 2002, by and among the Company, Monaco Acquisition Corporation, Maxia Pharmaceuticals, Inc. and Maxia Pharmaceuticals, LLC (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed February 25, 2003).
3(i)(a)*	Integrated copy of the Restated Certificate of Incorporation, as amended.
3(i)(c)*	Certificate of Ownership and Merger merging Incyte Corporation into Incyte Genomics, Inc.
3(ii)	Bylaws of the Company, as amended as of June 4, 2002 (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
4.1*	Form of Common Stock Certificate.
4.2	Rights Agreement dated as of September 25, 1998 between the Company and Chase Mellon Shareholder Services, L.L.C., which includes as Exhibit B, the rights certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed September 30, 1998).
4.3	Indenture dated as of February 4, 2000 between the Company and State Street Bank and Trust Company of California, N.A., as trustee (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.1#	1991 Stock Plan of Incyte Genomics, Inc., as amended and restated on February 27, 2002 (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-91542)).
10.2#	Form of Incentive Stock Option Agreement under the 1991 Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.3#	Form of Nonstatutory Stock Option Agreement under the 1991 Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.4#	1993 Directors' Stock Option Plan of Incyte Genomics, Inc., as amended and restated (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-91556)).
10.5#	Form of Indemnity Agreement between the Company and its directors and officers (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.6	Lease Agreement dated December 8, 1994 between the Company and Matadero Creek (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
10.9	Stock Purchase Agreement dated as of June 22, 1994 between the Company and Pfizer Inc. (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated June 23, 1994).
10.10	Registration Rights Agreement dated as of June 22, 1994 between the Company and Pfizer Inc. (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated June 23, 1994).

Exhibit Number	Description of Document
10.11	Stock Purchase Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated November 30, 1994, as amended by Form 8-K/A filed with the Commission on March 27, 1995).
10.12	Registration Rights Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated November 30, 1994).
10.13	Reserved.
10.14	Lease Agreement dated June 19, 1997 between the Company and The Board of Trustees of the Leland Stanford Junior University (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.15#*	1997 Employee Stock Purchase Plan of Incyte Corporation, as amended March 15, 2003.
10.18#	1996 Synteni, Inc. Equity Incentive Stock Plan (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-8 (File No. 333-46639)).
10.19#	The Hexagen Limited Unapproved Company Share Option Plan 1996, as amended (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-67691)).
10.21	Registration Rights Agreement, dated as of December 28, 2000, by and among the Company and the Stockholders of Proteome, Inc. (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed January 10, 2001).
10.22#	1998 Employee, Director and Consultant Stock Option Plan of Proteome, Inc., as amended (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed January 29, 2001 (File No. 333-54496)).
10.23#	Form of Restricted Stock Unit Agreement under the 1991 Stock Plan of Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.24#	Transition Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and Roy A. Whitfield (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.25#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and E. Lee Bendekgey (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.26#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and Michael D. Lack (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.27#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and James P. Merryweather (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.28#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and James R. Neal (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.29#	Amended and Restated Employment Agreement, dated as of November 26, 2001, between Incyte Genomics, Inc. and John M. Vuko (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.30#	Offer of Employment Letter, dated November 21, 2001, from the Company to Paul A. Friedman (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

Exhibit Number	Description of Document
10.31#	Offer of Employment Letter, dated November 16, 2001, from the Company to Robert B. Stein (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.32#	Employment Agreement, dated November 26, 2001, between Paul A. Friedman and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.33#	Employment Agreement, dated November 26, 2001, between Robert B. Stein and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.34†	Settlement Agreement dated December 21, 2001, between Affymetrix, Inc. and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.35	Lease Agreement, dated February 28, 2002, between Dupont Pharmaceuticals and Incyte Genomics, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).
10.36#	Promissory Note dated April 22, 2002 between Incyte Genomics, Inc. and Brian Metcalf and Heather Metcalf (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.37#	Promissory Note dated June 21, 2002 between Incyte Genomics, Inc. and Robert B. Stein and Faye E. Stein (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.38#	Amendment to Transition Agreement, effective as of April 1, 2002, between Incyte Genomics, Inc. and Roy A. Whitfield (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.39#	Amendment to Amended and Restated Employment Agreement, effective as of April 1, 2002, between Incyte Genomics, Inc. and James P. Merryweather (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.40#	Form of Amendment to Employment Agreement, effective as of July 24, 2002, between Incyte Genomics, Inc. and each of John M. Vuko, Lee Bendekgey, Michael D. Lack and James P. Merryweather (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.41#	Letter Agreement, dated July 25, 2002, between Incyte Genomics, Inc. and Michael D. Lack (incorporated by reference to the exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.42†	Letter Agreement, dated September 5, 2002, between the Company and Schering-Plough, Ltd. (incorporated by reference to Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
10.43*#	Letter Agreement, dated February 12, 2003, between Robert B. Stein and Incyte Genomics, Inc.
21.1*	Subsidiaries of the Company.
23.1*	Consent of Ernst & Young LLP, Independent Auditors.
24.1*	Power of Attorney (see page 85 of this Form 10-K).

* Filed herewith.
† Confidential treatment has been requested with respect to certain portions of these agreements.
# Indicates management contract or compensatory plan or arrangement.

Copies of above exhibits not contained herein are available to any stockholder upon written request to: Investor Relations, Incyte Corporation, 3160 Porter Drive, Palo Alto, CA 94304.

Exhibit 3(i)(a)

THIS DOCUMENT CONSTITUTES AN INTEGRATED COPY OF THE REGISTRANT'S CERTIFICATE OF INCORPORATION, AS AMENDED THROUGH THE DATE OF THIS FILING. THE DOCUMENTS SO INTEGRATED ARE ON FILE WITH THE DELAWARE SECRETARY OF STATE.

RESTATED CERTIFICATE OF INCORPORATION

OF

INCYTE CORPORATION

ARTICLE I

The name of the corporation is Incyte Corporation.

ARTICLE II

The address of its registered office in the State of Delaware is Corporation Service Company, 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is Corporation Service Company.

ARTICLE III

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

A. Classes of Stock. The total number of shares of all classes of capital stock which the corporation shall have authority to issue is two hundred five million (205,000,000), of which two hundred million (200,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Common Stock (the "Common Stock") and five million (5,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Preferred Stock (the "Preferred Stock"). The number of authorized shares of Common Stock or Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the then holders of the Preferred Stock, or of any series thereof, unless a vote of any such Preferred Stock holders is required pursuant to the provisions established by the Board of Directors of this corporation (the "Board of Directors") in the resolution or resolutions providing for the issue of such Preferred Stock, and if such holders of such Preferred Stock are so entitled to vote thereon, then, except as may otherwise be set forth in this Restated Certificate of Incorporation, the only stockholder approval required shall be the affirmative vote of a majority of the combined voting power of the Common Stock and the Preferred Stock so entitled to vote.

B. Preferred Stock. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is expressly authorized to provide for the issue, in one or more series, of all or any of the remaining shares of Preferred Stock and, in the resolution or resolutions providing for such issue, to establish for each such series the number of its shares, the voting powers, full or limited, of the shares of such series, or that such shares shall have no voting powers, and the designations, preferences and relative, participating, optional or other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof. The Board of Directors is also expressly authorized (unless forbidden in the resolution or resolutions providing for such issue) to increase or decrease (but not below the number of shares of the series then outstanding) the number of shares of any series subsequent to the issuance of shares of that series. In case the number of shares of any such series shall be so decreased, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

1. Dividends and Distributions.

(a) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Participating Preferred Stock with respect to dividends, the holders of shares of Series A Participating Preferred Stock in preference to the holders of shares of Common Stock, par value $.001 per share (the "Common Stock"), of the Corporation and any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Participating Preferred Stock in an amount per share (rounded to the nearest cent) equal to the greater of (a) $25.00, or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Participating Preferred Stock. In the event the Corporation shall at any time after the close of business on October 13, 1998 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the amount to which holders of shares of Series A Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by

multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series A Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $25.00 per share on the Series A Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Participating Preferred Stock unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

2. Voting Rights. The holders of shares of Series A Participating Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series A Participating Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock into a greater number of shares, or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the number of votes per share

to which holders of shares of Series A Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock outstanding immediately prior to such event.

(b) Except as otherwise provided herein, in the Certificate of Incorporation or by law, the holders of shares of Series A Participating Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) (i) If at any time dividends on any Series A Participating Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the holders of the Series A Participating Preferred Stock, voting as a separate series from all other series of Preferred Stock and classes of capital stock, shall be entitled to elect two members of the Board of Directors in addition to any Directors elected by any other series, class or classes of securities and the authorized number of Directors will automatically be increased by two. Promptly thereafter, the Board of Directors of this Corporation shall, as soon as may be practicable, call a special meeting of holders of Series A Participating Preferred Stock for the purpose of electing such members of the Board of Directors. Said special meeting shall in any event be held within 45 days of the occurrence of such arrearage.

(ii) During any period when the holders of Series A Participating Preferred Stock, voting as a separate series, shall be entitled and shall have exercised their right to elect two Directors, then and during such time as such right continues (a) the then authorized number of Directors shall be increased by two, and the holders of Series A Participating Preferred Stock, voting as a separate series, shall he entitled to elect the additional Directors so provided for, and (b) each such additional Director shall not be a member of any existing class of the Board of Directors, but shall serve until the next annual meeting of stockholders for the election of Directors, or until his or her successor shall be elected and shall qualify, or until his or her right to hold such office terminates pursuant to the provisions of this Section 3(C).

(iii) A Director elected pursuant to the terms hereof may be removed with or without cause by the holders of Series A Participating Preferred Stock entitled to vote in an election of such Director.

(iv) If, during any interval between annual meetings of stockholders for the election of Directors and while the holders of Series A Participating Preferred Stock shall be entitled to elect two Directors, there are fewer than two such Directors in office by reason of resignation, death or removal, then, promptly thereafter, the Board of Directors shall call a special meeting of the holders of

Series A Participating Preferred Stock for the purpose of filling such vacancy(ies) and such vacancy(ies) shall be filled at such special meeting. Such special meeting shall in any event be held within 45 days of the occurrence of any such vacancy(ies).

(v) At such time as the arrearage is fully cured, and all dividends accumulated and unpaid on any shares of Series A Participating Preferred Stock outstanding are paid, and, in addition thereto, at least one regular dividend has been paid subsequent to curing such arrearage, the term of office of any Director elected pursuant to this Section 3(C), or his or her successor, shall automatically terminate, and the authorized number of Directors shall automatically decrease by two, and the rights of the holders of the shares of the Series A Participating Preferred Stock to vote as provided in this Section 3(C) shall cease, subject to renewal from time to time upon the same terms and conditions.

(d) Except as set forth herein or as otherwise provided by law, holders of Series A Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock and any other capital stock of the Corporation having general voting rights as set forth herein) for taking any corporate action.

3. Certain Restrictions.

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Participating Preferred Stock except dividends paid ratably on the Series A Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Participating Preferred Stock provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the

Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Participating Preferred Stock or any shares of stock ranking on a parity with the Series A Participating Preferred Stock except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

4. Reacquired Shares. Any shares of Series A Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

5. Liquidation, Dissolution or Winding Up.

(a) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Participating Preferred Stock shall have received per share, the greater of $1,000.00 or 1,000 times the payment made per sharp of Common Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the “series A Liquidation Preference”). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the “Common Adjustment”) equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalization with respect to the Common Stock) (such number in clause (ii), the “Adjustment Number”). Following the payment of the foil amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Participating Preferred Stock and Common Stock,

respectively, holders of Series A Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively.

(b) In the event there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series A Participating Preferred Stock then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

6. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

7. Redemption. The shares of Series A Participating Preferred Stock shall not be redeemable.

8. Ranking. The Series A Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

9. Amendment. The Certificate of Incorporation and the Bylaws of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least 66-213% of the outstanding shares of Series A Participating Preferred Stock voting separately as a class.

10. Fractional Shares. Series A Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Participating Preferred Stock.

C. Common Stock.

1. Relative Rights of Preferred Stock and Common Stock. All preferences, voting powers, relative, participating optional or other special rights and privileges, and qualifications, limitations, or restrictions of the Common Stock are expressly made subject and subordinate to those that may be fixed with respect to any shares of the Preferred Stock.

2. Voting Rights. Except as otherwise required by law or this restated certificate of incorporation, each holder of Common Stock shall have one vote in respect of each share of stock held by him of record on the books of the corporation for the election of directors and on all matters submitted to a vote of stockholders of the corporation.

3. Dividends. Subject to the preferential rights of the Preferred Stock, holders of Common Stock shall be entitled to receive, when and if declared by the board of directors, out of the assets of the corporation which are by law available therefore, dividends payable either in cash, in property or in shares of capital stock.

4. Dissolution, Liquidation or Winding Up. In the event of any dissolution, liquidation or winding up of the affairs of the corporation, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of Common Stock shall be entitled, unless otherwise provided by law or this Restated Certificate of Incorporation, to receive all of the remaining assets of the corporation of whatever kind available for distribution to stockholders ratably in proportion to the number of shares of Common Stock held by them respectively.

D. Series A Participating Preferred Stock. The shares of Preferred Stock shall be designated as "Series A Participating Preferred Stock", par value $.001 per share, and

the number of shares constituting such series shall be 250,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Participating Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

ARTICLE V

The corporation is to have perpetual existence.

ARTICLE VI

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware:

A. The Board of Directors is expressly authorized to adopt, amend or repeal the by-laws of the corporation; provided, however, that the by-laws may only be amended in accordance with the provisions thereof.

B. Elections of directors need not be by written ballot unless the by-laws of the corporation shall so provide.

C. The books of the corporation may be kept at such place within or without the State of Delaware as the by-laws of the corporation nay provide or as may be designated from time to time by the Board of Directors.

ARTICLE VII

A. A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation and its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law; (iii) under Section 174 of the Delaware General Corporation Law; or (iv) for any transaction from which the director derived an improper personal benefit.

B. Each person who is or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent,

shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in the second paragraph hereof, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this section shall be a contract right and shall include the right to be paid by the corporation any expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this section or otherwise. The corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the corporation with the same scope and effect as the foregoing indemnification of directors and officers.

If a claim under the first paragraph of this section is not paid in full by the corporation within thirty (30) days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met

such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Restated Certificate of Incorporation, by-law, agreement, vote of stockholders or disinterested directors or otherwise.

C. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

D. Any repeal or modification of the foregoing provisions of this Article VII shall not adversely affect any right or protection of any director, officer, employee or agent of the corporation existing at the time of such repeal or modification.

E. The amendment or repeal of this Article VII shall require the approval of the holders of shares representing at least sixty six and two-thirds percent (66-2/3%) of the shares of the corporation entitled to vote in the election of directors, voting as one class.

CERTIFICATE OF OWNERSHIP AND MERGER

MERGING

INCYTE CORPORATION

INTO

INCYTE GENOMICS, INC.

(Pursuant to Section 253 of the General Corporation Law of Delaware)

Incyte Genomics, Inc., a Delaware corporation (the "Corporation"), does hereby certify:

FIRST: That the Corporation is incorporated pursuant to the General Corporation Law of the State of Delaware.

SECOND: That the Corporation owns all of the issued and outstanding shares of Incyte Corporation, a Delaware corporation (the "Incyte Corporation").

THIRD: That the Corporation, by the following resolutions of its Board of Directors, duly adopted on the twelfth day of December, 2002, determined to merge into itself Incyte Corporation on the conditions set forth in such resolutions:

RESOLVED, that the Corporation merge into itself, Incyte Corporation (the "Merger") and assume all of Incyte Corporation's liabilities and obligations and upon such merger becoming effective, each outstanding share of Common Stock of Incyte Corporation shall cease to be outstanding, without any payment being made in respect thereof;

RESOLVED, that by virtue of the Merger and without any action on the part of the holder thereof, each then outstanding share of common stock of the Corporation shall remain unchanged and continue to remain outstanding as one share of common stock of the Corporation, held by the person who was the holder of such share of common stock of the Corporation immediately prior to the Merger; and it is further

RESOLVED, that by virtue of the Merger and without any action on the part of the holder thereof, each then outstanding share of common stock of Incyte Corporation shall be canceled and no consideration shall be issued in respect thereof; and it is further

RESOLVED, that the Chief Executive Officer, the President, any Executive Vice President and the Secretary of the Corporation be, and each of them hereby is, directed to make, execute and acknowledge, in the name of the Corporation, a certificate of

ownership and merger for the purpose of effecting the Merger and to file the same in the office of the Secretary of State of the State of Delaware, and to do all other acts and things that may be necessary to carry out and effectuate the purpose and intent of the resolutions relating to the Merger; and it is further

RESOLVED, that upon the filing of the Certificate of Ownership and Merger, Article I of the Restated Certificate of Incorporation of the Corporation shall be amended in its entirety to read as follows:

"The name of the corporation is Incyte Corporation"

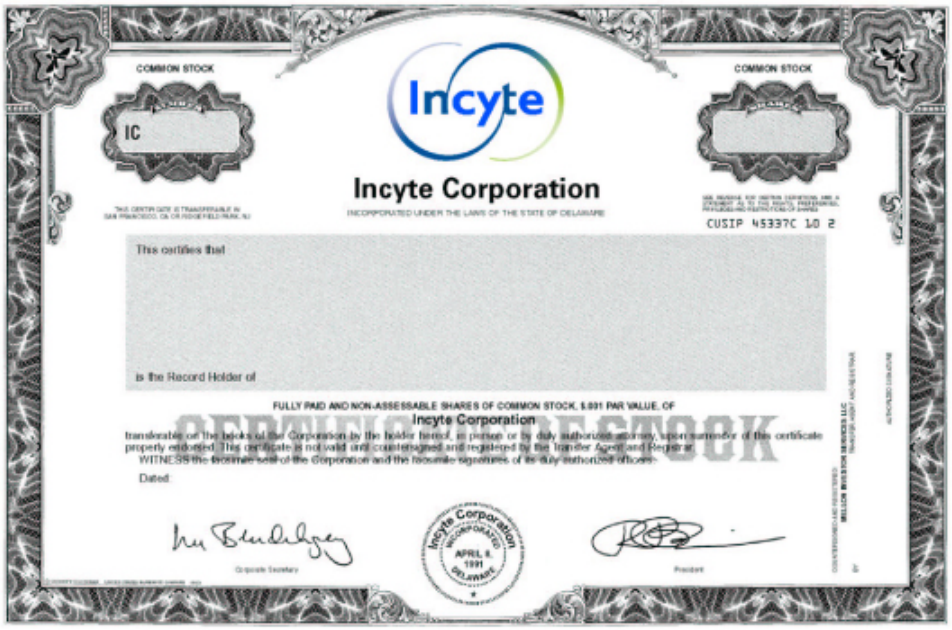
FOURTH: This Certificate of Ownership and Merger shall be effective at 12:01 a.m. on March 15, 2003.

IN WITNESS WHEREOF, Incyte Genomics, Inc. has caused this certificate to be signed by its respective authorized officer on this 10th day of March, 2003.

INCYTE GENOMICS, INC.

By: /s/ LEE BENDEKGEY

E. Lee Bendekgey
Corporate Secretary


COMMON STOCK
IC
Incyte
Incyte Corporation
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE
COMMON STOCK
CUSIP 45337C 10 2
This certifies that
is the Record Holder of
FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, $.001 PAR VALUE, OF
Incyte Corporation
transferable on the books of the Corporation by the holder hereof, in person or by duly authorized attorney, upon surrender of this certificate
properly endorsed. This certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.
WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.
Dated
SPECIMEN
Incyte Corporation
INCORPORATED
APRIL 8,
1991
DELAWARE
Corporate Secretary
President

Incyte Corporation

The Corporation is authorized to issue Common Stock and Preferred Stock. The Board of Directors of the Corporation has authority to fix the number of shares and the designation of any series of Preferred Stock and to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any unissued series of Preferred Stock.

The Corporation will furnish to any stockholder, upon request and without charge, a statement of the powers, designations, preferences, and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights, insofar as the same shall have been fixed, and of the authority of the Board of Directors to designate any preferences, rights and limitations of any wholly unissued series. Any such request should be directed to the Secretary of the Corporation at its principal office.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	– as tenants in common
TEN ENT	– as tenants by the entireties
JT TEN	– as joint tenants with right of survivorship and not as tenants in common

UNIF GIT MIN ACT– _____ (Cust) Custodian _____ (Minor)
under Uniform Gifts to Minors
Act _____ (State)

UNIF TRF MIN ACT– _____ (Cust) Custodian (until age _____)
_____ (Minor) under Uniform Transfers
to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____

_____

_____ Shares of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated _____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular without alteration or enlargement or any change whatever.

Signature(s) Guaranteed:

By

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement between Incyte Corporation (the "Company") and Mellon Investor Services LLC (the "Rights Agent") dated as of March 15, 2002 (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights may be redeemed, may expire, or may be evidenced by separate certificates and will no longer be evidenced by this certificate. The Company will mail to the holder of this certificate a copy of the Rights Agreement without charge within five days after receipt of a written request therefor. Under certain circumstances Rights issued to Acquiring Persons (as defined in the Rights Agreement) or certain related Persons and any subsequent holder of such Rights may become null and void.

EXHIBIT 10.15

INCYTE CORPORATION

1997 EMPLOYEE STOCK PURCHASE PLAN

(as amended March 15, 2003)

The following constitute the provisions of the 1997 Employee Stock Purchase Plan of Incyte Corporation, as amended March 15, 2003.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock, $.001 par value, of Incyte Corporation.

(d) "Company" shall mean Incyte Corporation and any Designated Subsidiary of the Company.

(e) "Compensation" shall mean all cash salary, wages, commissions and bonuses, but shall not include any imputed income or income arising from the exercise or disposition of equity compensation.

(f) "Effective Date" shall mean March 15, 2003.

(g) "Designated Subsidiary" shall mean any Subsidiary which has been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(h) "Employee" shall mean any individual who is an Employee of the Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(i) "Enrollment Date" shall mean the first day of each Offering Period.

(j) "Exercise Date" shall mean the last Trading Day of each Purchase Period.

(k) "Fair Market Value" shall mean, as of any date, the value of Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation The Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(2) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of such determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable; or

(3) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(l) "Offering Periods" shall mean the periods of approximately twenty-four (24) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after May 1 and November 1 of each year and terminating on the last Trading Day in the periods ending twenty-four months later. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(m) "Plan" shall mean this Employee Stock Purchase Plan.

(n) "Purchase Price" shall mean an amount equal to 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower.

(o) "Purchase Period" shall mean the approximately six-month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the Enrollment Date and end with the next Exercise Date.

(p) "Reserves" shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(q) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(r) "Trading Day" shall mean a day on which national stock exchanges and The Nasdaq National Market (or any successor market system) are open for trading.

3. Eligibility.

(a) Any Employee who has been employed by the Company for one month or more on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after May 1 and November 1 each year, or on such other dates as the Board shall determine, and continuing thereafter until terminated in accordance with Section 19 hereof. The Board or a committee thereof shall have the power to change the duration of Offering Periods (including the commencement dates thereof) and Purchase Periods thereunder with respect to future offerings without stockholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's stock administrator not later than ten (10) business days prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not less than one percent (1%) and not more than ten percent (10%) of the participant's Compensation, with such amount designated in integral multiples of one percent (1%); provided, however, that the aggregate of such payroll deductions during any Offering Period shall not exceed ten percent (10%) of the participant's aggregate Compensation during such Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10, or may increase or decrease the rate of his or her payroll deductions as provided in this Section 6(c). A participant may increase the rate of his or her payroll deductions only as of the beginning of a Purchase Period. Such increase shall take effect with the first payroll following the beginning of the new Purchase Period provided the participant has completed and delivered to the Company's stock administrator a new subscription agreement authorizing the increase in the payroll deduction rate at least ten (10) business days prior to the beginning of the new Purchase Period. A participant may decrease the rate of his or her payroll deductions each month. Any decrease shall become effective as of the first payroll of the next calendar month following the date that the participant completes and delivers to the Company's stock administrator a new subscription agreement authorizing the decrease in the payroll deduction rate. However, if the subscription agreement is not received at least five (5) business days prior to such payroll, the decrease shall become effective as of the first payroll of the second succeeding calendar month. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. Subject to the foregoing, a participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during a Purchase Period. Such a decrease shall not be treated as a withdrawal from the Plan subject to Section 10, unless the participant elects to withdraw pursuant to Section 10. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless the participant elects to withdraw from the Plan as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be

permitted to purchase during each Purchase Period more than eight thousand (8,000) shares of Common Stock (subject to any adjustment pursuant to Section 18) on the Enrollment Date, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 13 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares of Common Stock shall be exercised automatically on the Exercise Date, and the maximum number of full shares of Common Stock subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, a share certificate or certificates representing the number of shares of Common Stock so purchased shall be delivered to a brokerage account designated by the Company and kept in such account pursuant to a subscription agreement between each participant and the Company and subject to the conditions described therein which may include a requirement that shares be held and not sold for certain time periods, or the Company shall establish some other means for such participants to receive ownership of the shares.

10. Discontinuation; Withdrawal.

(a) A participant may discontinue his or her participation in the Plan only by withdrawing from the Plan as provided in this Section 10. A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan by giving written notice to the Company in the form of Exhibit B to this Plan. Such notice must be received by the Company no later than 2:00 p.m. Pacific Standard Time on the second Trading Day preceding the Exercise Date. All of the participant's payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement in accordance with Section 5(a) .

(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the participant withdraws from the Plan, subject to compliance with Section 5(a).

11. Termination of Employment.

Upon a participant's ceasing to be an Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be two million one hundred thousand (2,100,000) shares, subject to adjustment upon changes in capitalization of the Company as provided in Section 18 hereof. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares purchased by a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of outstanding shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Periods shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, limited liability company or other entity, the Plan shall terminate upon the date of the consummation of such transaction unless the plan of merger, consolidation or reorganization provides otherwise, and any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date") and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof. The Plan shall in no event be construed to restrict the Company's right to undertake any liquidation, dissolution, merger, consolidation or other reorganization.

19. Amendment or Termination.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 18 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including,

without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Term of Plan. The Plan, as amended and restated, shall become effective upon the Effective Date. It shall continue until February 27, 2007 unless sooner terminated under Section 19 hereof.

23. Automatic Transfer to Low Price Offering Period. To the extent permitted by any applicable laws, regulations, or stock exchange rules, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

24. Execution. To record the amendment and restatement of the Plan by the Board of Directors as of the Effective Date, the Company has caused its authorized officer to execute the same.

INCYTE CORPORATION

By: _____

Its _____

EXHIBIT A

INCYTE CORPORATION

1997 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

Enrollment Date: _____

____ Original Application
____ Change in Payroll Deduction Rate
____ Change of Beneficiary(ies)

(1) _____ hereby elects to participate in the Incyte Corporation 1997 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.

(2) I hereby authorize payroll deductions from each paycheck in the amount of ___% of my Compensation (as defined in the Employee Stock Purchase Plan) on each payday (from 1 to 10%) during the Offering Period in accordance with the Employee Stock Purchase Plan. (Please note that no fractional percentages are permitted.)

(3) I understand that these payroll deductions will be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option to purchase shares.

(4) I have received a copy of the complete Employee Stock Purchase Plan. I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of such Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to stockholder approval of the Employee Stock Purchase Plan.

(5) Shares purchased for me under the Employee Stock Purchase Plan should be deposited in my brokerage account with _____ [name of broker], or issued in the name(s) of (Employee or Employee and Spouse only):

_____.

(6) I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or one year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such

shares were purchased by me over the price which I paid for the shares. I hereby agree to notify the Company in writing within 30 days after the date of any disposition of my shares and I will make adequate provision for Federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from any compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares; or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

(7) I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.

(8) In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME: (Please print) _____
(First) (Middle) (Last)

_____ _____
(Relationship)

_____
(Address)

Employee's Social Security Number: _____

Employee's Address: _____

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME. I HAVE RECEIVED A COPY OF THE COMPLETE EMPLOYEE STOCK PURCHASE PLAN AND UNDERSTAND THAT MY PARTICIPATION IN SUCH PLAN IS IN ALL RESPECTS SUBJECT TO THE TERMS OF SUCH PLAN.

Dated: _____ _____
Signature of Employee

_____
Spouse's Signature
(If beneficiary other than spouse)

EXHIBIT B

INCYTE CORPORATION

1997 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the Incyte Corporation 1997 Employee Stock Purchase Plan which began on _____, ____ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to the Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement. The undersigned has received a copy of the complete Employee Stock Purchase Plan, and understands that his or her participation in the Employee Stock Purchase Plan is in all respects subject to the terms of such Plan.

Name and Address of Participant:

_____

_____

_____

Signature:

_____

Date: _____

PLEASE RETURN FORM TO MARILYN PASQUINELLI IN STOCK ADMINISTRATION OR FAX TO (650) 621-7532.

APPENDIX A

EMPLOYEES OF INCYTE CORPORATION LTD

Gains on options exercised under the Plan by Employees who are employed by Incyte Corporation Ltd ("Limited") are subject to National Insurance Contributions under United Kingdom Social Security Contributions and Benefits Act 1992, section 4(4)(a) ("Secondary Contributions"). Secondary Contributions are payable by Limited unless Limited and the Employee enter into a joint election in the form attached hereto as Exhibit A to transfer liability for payment of the Secondary Contributions to the Employee (the "Joint Election"). Effective January 1, 2001, any Employee of Limited who wishes to exercise options granted pursuant to the Plan must enter into a Joint Election in accordance with the following provisions:

A.1 **Filing Date for Current Participants**. Employees of Limited who enrolled in the Plan prior to October 31, 2001 and who have not withdrawn from the Plan must file the Joint Election with the Company's stock administrator not later than ten (10) business days prior to October 31, 2001. Any such Employee who fails to file the Joint Election in a timely manner will be deemed to have withdrawn from the Plan prior to October 31, 2001 and his or her option or options will not be exercised on the Exercise Date falling on October 31, 2001.

A.2 **New Participants.** An eligible Employee of Limited who wishes to become a participant in the Plan on or after November 1, 2001 must file a Joint Election with the Company's stock administrator at least ten (10) business days prior to the applicable Enrollment Date. An eligible Employee who does not file a Joint Election will not be granted an option under the Plan.

A.3 **Amendment of the Joint Election; Approval.** The form for the Joint Election, as it may be amended by the Company from time to time, shall be submitted to the Board of Inland Revenue for approval and such approval shall be obtained before the Company and an eligible Employee enter into a particular Joint Election. A Joint Election may be amended in a writing signed by both the Company and the Employee, provided that any such amendment must be approved by the Board of Inland Revenue before it takes effect.

A.4 **Effect of Withdrawal from the Plan.** If a participant withdraws from the Plan, the Joint Election shall continue to apply in the event that the Employee re-enrolls in the Plan.

Exhibit 10.43

[LETTERHEAD OF INCYTE GENOMICS, INC.]

February 12, 2003

Dr. Robert Stein

Dear Bob,

I am providing this letter to document our recent discussions regarding your continued employment with Incyte.

We have agreed to the following conditions:

1) Your base salary will be increased to $22,000 per bi-weekly pay period (equivalent to $572,000 on an annualized basis; this equates to the $6,000 per month increase we have discussed).

2) Incyte will grant you a retention bonus in the amount of $330,000 in consideration for your continued employment for at least 24 months from the date you on which you sign this document. This payment is taxable. If you voluntarily terminate your employment with Incyte within this 24-month period, you will be required to pay to the Company liquidated damages resulting from breach of your continued employment obligation. The amount of such liquidated damages shall initially be $330,000 should you terminate your employment during the first month of this period, and shall decrease by $13,750 per month (i.e., by 1/24 of the initial amount) each ensuing month over the remainder of the 24-month period.

3) Incyte will grant you an option to purchase 60,000 shares of Incyte common stock at an exercise price equal to the fair market value of the common stock on the date of Compensation Committee Approval. These options will vest over a four-year period with a one-year cliff. The specific terms and conditions of this grant will be set forth in a Stock Option Agreement to be entered in between you and the Company.

4) If the Company and the Board of Directors require you to relocate from your residence in Palo Alto, California, to another location on behalf of the Company, you may choose, by written notice given to the Company's Chief Executive Officer within 60 days of Incyte's notice to you of the need to relocate, to require Incyte to assume responsibility for the sale of your home. If Incyte assumes such responsibility, Incyte will become the owner of your home and will pay you, upon closing of the sale of your home, the gross purchase price (as set forth in your home purchase contract) you paid for your home. If you choose not to have Incyte assume such responsibility, if the gross selling price of your home, as set forth in the home sales contract, is less than the gross purchase price you paid, as set forth in your home purchase contract, Incyte will pay you, in cash, an amount equal to the difference between such purchase price and such selling price.

In order to confirm your agreement with and acceptance of these terms, please sign one copy of this letter and return it to me. The other copy of this letter is for your records. Should you have any other questions about these considerations, please contact me.

Sincerely,

/s/ PAUL A. FRIEDMAN

Paul A. Friedman
Chief Executive Officer

I have read and understand the terms in this letter. I agree to the terms set forth in this letter.

/s/ ROBERT B. STEIN	Feb. 12, 2003
Robert B. Stein	Date

Exhibit 21.1

SUBSIDIARIES OF INCYTE CORPORATION

Name	Jurisdiction of Organization
Incyte Europe Holdings Limited	England and Wales
Incyte Corporation Limited	England and Wales
Incyte Dormant Co Limited	England and Wales
Incyte Asia, Inc.	Delaware
Incyte San Diego, Inc.	Delaware
Proteome, Inc.	Delaware

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-76236, 33-93668 and 333-91556) pertaining to the 1993 Directors' Stock Option Plan of Incyte Pharmaceuticals, Inc., (Form S-8 Nos. 33-76344, 33-93666, 333-13449, 333-31413, 333-47178, 333-63069, 333-67598, 333-83291 and 333-91542) pertaining to the 1991 Stock Plan of Incyte Pharmaceuticals, Inc., (Form S-8 Nos. 333-31409, 333-47180, 333-67596 and 333-91556) pertaining to the 1997 Employee Stock Purchase Plan of Incyte Pharmaceuticals, Inc., (Form S-8 No. 333-46639) pertaining to Options Assumed by Incyte Pharmaceuticals, Inc. Originally Granted Under The Synteni, Inc. 1996 Equity Incentive Plan, (Form S-8 No. 333-67691) pertaining to Options Issued by Incyte Pharmaceuticals, Inc. to Former Optionholders of Hexagen Limited, (Form S-8 No. 333-54496) pertaining to Options Assumed by Incyte Genomics, Inc. Originally Granted Under The Proteome, Inc. 1998 Employee, Director, and Consultant Stock Option Plan, and (Form S-3 No. 333-55826) pertaining to 1,248,522 Shares of Common Stock and the related Prospectuses of our report dated January 31, 2003, except as to the first paragraph of Note 1 and Note 16 for which the date is March 15, 2003, with respect to the consolidated financial statements and schedule of Incyte Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2002.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 25, 2003